

Interview with Rio Praaning Prawira Adiningrat (PA CSR) about Corporate Social Responsibility

By Elmar Bouma

Rio D. Praaning Prawira Adiningrat is the founder of Praaning Meines Consultancy Group and he is Managing Partner of PA Europe and Member of the Boards of PA Asia, PA Russia and PA Middle East, and Board Member or adviser of several multinational organizations and Governments.

The influential magazine *The Economist* states that companies should focus on complying with laws and pay their taxes, and that they have no role to play in improving the broader society, because the activities are a responsibility of the government. How do you respond to this view?

The Economist is a highly respected magazine but the product cannot be produced and sold well unless it spends time and money on reputation management, advertising, human resources, etcetera. An industry makes a product that cannot be produced and sold well unless they do quite the same. Human intelligence has the flexibility to respond to different environments and circumstances. One cannot apply the same rules of survival and success in the Gobi desert as on the North Pole. If you want to benefit from low wages, availability of cheap resources, you just will not make the best of it in terms of sustained profitability and environmental sustainability unless you invest in people not only in but also around your work place: education above all, but also health care, infrastructure, optimal use of sometimes scarce resources including water, air, and indeed safe food. This is what for instance Shell states, and what both the European Union and the UN declare on the basis of experiences of the best of multinational enterprises.

And in modesty: our own experience supports this.

Many companies consider Corporate Social Responsibility (CSR) only as a financial burden and it makes them more vulnerable to demands from their community. You say that it can contribute to profitability and strengthens their position within the community. Can you explain how and is there evidence for this?

There are two ways to address this question. The negative and short term first: imagine headlines in the national or even international media with complaints against your company as exploiting the environment and the people surrounding your facility or project. Imagine no one defends your honour. That may imply serious loss of money, reputation and share value. This can be prevented through an *organic* link between the company's profitability and the social environment in which it works. This leads to the positive answer: If a company researches how it can avail itself of optimal local support (human resources), local clean water and local good food and whatever else it requires to do its work well, it may not have to spend any additional cost at all – so no burden. After sowing – by targeted investing in local and regional society – the company can reap the benefit of

both the product of and a very positive relationship with local and regional society. This will create a psychological environment in and outside of your company, both among workers and in civic society, of loyalty and dedication.

Money spent without any relationship to the company's work and profitability – no matter how well intended – may appear unsustainable in the longer term, while making people unjustifiably dependent on 'help'. Examples?

Hewlett Packard in China makes a direct and organic link to its core business and civic society. InBev makes a point of educating young and promising people that later join their management. Recently President SBY chose a top hotel in Mid Java for a full Cabinet strategy session. Normally this hotel has no specific security measures. Its activities are organically supported by its environment that benefits of the hotel's success. That is the hotel's best defence. I have proposed – even at the level of the EU Council of Ministers – that hotels on a structural and systemic basis work with their environment and create an organic link to (poor Islamic) schools. That may well be less expensive and more effective than turning your hotel into a medieval castle.



Rio Praaning Prawira Adiningrat

One of your statements is that 'CSR beats corruption anytime, anywhere'. Are you saying that companies in Indonesia can avoid the corruption problem by engaging in effective CSR?

Yes. Let me first make clear what consequences are connected to corruption. For example: Civil servants accept bribes of businessmen so that no customs duties and taxes are paid. Their products become so cheap that the indigenous producers can no longer compete. They lose their business. Local society is subjugated to what is in fact a crime based structure. Another example: Local authorities misappropriate Government funding. Instead of improving education for the future of their own children, they put money in their pockets. If applied to Indonesia, in both cases the Indonesian people suffer. 50 million Indonesians live below poverty level. An average income of 50 USD per month cannot pay for food and shelter of a family of 7 while spending 3 USD school fee per month for 5 children. As long as there is corruption in Indonesia, children will be deprived of a decent future. Give people a chance, a good reason, to be loyal to your company. Work with, educate and train the best of their leaders. And *they* will defend your interests against abuse.

What in your view are the general characteristics of a good CSR programme?

Research what society can do for your corporate profitability. Integrate the research and SWOT results in corporate planning. Seek cooperation with international and national funds and support centers. Create systemic 'organic' forms of cooperation with civic society. Count your profits *and* blessings.

Indonesia now have CSR programmes, sponsoring health care, education and cultural programmes, developing local suppliers and entrepreneurship and environmental clean-up. Are these programmes sufficient and are they efficient?

Make a *difference* between philanthropy, humanitarian aid, and CSR. The first two are admirable, but unless you name is Buffett, unsustainable. CSR is *not* a hand out. It is an integrated part of a corporate planning process that requires just as much careful consideration as any other part of your business. What currently lacks is a research based systemic approach, both by authorities and by industries. We have developed a model for sustained consultation between national, regional and local authorities on the one hand and businesses at the other hand. At the highest level a Code of Conduct with General Principles could be worked out. At the middle level Frameworks for CSR policies and actions could be agreed. At the ground level research based plans and projects could be developed. The vertical integration of this system will lead to the effective tapping of much wider resources. A whole region may be lifted out of chanceless poverty. A systemic approach prevents that there is only tree planting, or school painting. It ensures optimal efficiency on the basis of steep learning curves. Such systemic approach with both authorities and civic society

makes it quite difficult to act intransparently and incorrectly, for both authorities and industries.

How can a company with a good CSR-programme defend itself against pressure from communities and government to spend more money and conduct more CSR-activities?

The key of optimal CSR activities is that local people are truly part of a profit making effort that they *understand*. Margaret Thatcher's single biggest contribution to the UK's economic health is that her privatization programme allowed normal people, workers, to share in profits. For the first time after centuries of industrial development the UK broke the paradigm of true or perceived exploitation at the one hand and true or perceived indecent and unhelpful abuse of power of trade unions at the other hand. Workers became co-shareholders who all of a sudden understood the relationship between capital investment and profit. Just as in England, this will allow Indonesians to understand the value of foreign direct investment for national – indeed *their* development. It will take away the mistaken idea that only the shareholders behind the industry win. And it will create a transparent and understandable relationship between good work and good profit. *One not without the other.*

Why do companies need external assistance in designing and carrying out a good CSR-programme?

An effective CSR approach is strategic and that implies Board Room decision making. The tipping point is right there. But how to draw the line from the Board to the Ground? It is crucial that on the ground research is done to identify persons and institutions to work with, *within* the company's strategic framework. Both from an internal industry-organizational point of view, and from a practical point of view, it is

more effective to call in external expert advice and operational (on the ground) support. This helps also *avoid* direct responsibility for civic society development programme elements while it helps *promote* cooperation with and financial support by development aid organizations.

In what way is the support given by PA CSR different than the advice offered by other CSR consultants ?

First of all, PA CSR Ltd as a company is a logical consequence of decades of experience in both running and advising companies, and both running and advising Government. Each element of PA CSR advice and support is tested. *Within* the PA Group we have former (Prime) Ministers, and industrial leaders, and experienced on the ground economic development workers. Last but not least: we practice CSR ourselves: we would not dare advise anyone else what we do not practice ourselves.

Better profitability, less expenses to repair negative developments, less expenses for bribes, penalties, less expenses for security measures, better relations with local, regional authorities, faster approval processes, better access to market, better PR, better media coverage, better share price. Better sleep at night. More pride. More happiness. It's a very much worthwhile investment in all aspects.

You state that the approach of PA CSR is based on extensive research about the

company's current conditions. In previous experiences, what kind of information have you found information that the management of the company was not aware of?

Any strategic element of corporate policy (this is an element that can directly influence profitability and shareprice) is regularly audited in any serious company. A PA adviser on CSR must base his proposals on a SWOT in general (what is a company currently doing, this can lead to a bench marking effort) and on a SWOT in the region of action in specific. For instance, if in a mining sector there is continued abuse in humanitarian or environmental sense, a new mining company entering that region *must anticipate* problems by measuring civic society expectation against corporate planning. Next, a *pre-emptive approach* will be created, advised and – after approval – implemented.

We have done this hundreds of times in all parts of the world, based on our tested research methodology, always adapting to local circumstances and always working with trusted local people while combining these with non-local experts.

How do you see CSR developing in Indonesia in comparison to other Asian countries?

Of course each country is entitled to seek and develop its own road towards a just and equal society where each human being, without any exclusion,

has the right to education, health care and work. Evidently, Indonesia considers CSR a key element in this development – why else would it make CSR compulsory while other (Asian) countries did not. A while ago a young boy hung himself after his parents took him from school as they could not pay the monthly 3USD school fee. CSR may well be a key answer to the pain that any society causes to itself if it lets such dramatic events happen. In the end, there simply is no alternative for positive and close cooperation between (foreign) investors at the one hand and civic society and those who lead it at the other hand. The Government or leader that practices this truism first and to the end will progress most. Indonesia has natural resources other Asian countries can only dream of. It has a perfect geostrategic position between China and Australia. It shares a history with Europe. It is considered a strategic partner by the US. It is on the top of Russian, Japanese and Russian agendas. By origin it already includes so many different religions and cultures that it is probably the world's best chance to build a tolerant, equal and prosperous Muslims/non-Muslim society. If I would not believe in that I would not be here. My father is a Muslim from Tasikmalaya, West Java. My mother is a Christian from The Netherlands. I believe in the Almighty, no colours or names attached. For Him everything is possible and nothing is excluded. So let us all get to work and see what we can do together at any level and at any place. That is the true basis for PA CSR.

PA CSR Ltd is a newly established subsidiary of PA International. PA CSR aims to assist companies in formulating and implementing Corporate Social Responsibility (CSR) efforts as part of their corporate policies. PA CSR draws on the human resources of the for-profit PA companies and the not-for-profit PA International Foundation so that it has an optimal combination of global, national and local experiences, knowledge and networks in a vast area ranging from industrial and socio-economic development, education and capacity building, to healthcare, infrastructure and water management. PA CSR offers strategic research and advice to Management Boards and hands-on support to Operational Departments in order to help them identify and develop the most appropriate CSR strategy, tactics and operations – flexibly adapting to different world regions, cultures and levels of development thanks to PA International's local knowledge and cooperative structures. For more information on PA International Foundation and links to PA Consulting companies please refer to <http://www.pa-international.org/>