Sustainability Framework: An Integration of the Equator Principles into Business Process

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Abstract

Indonesia as the largest archipelago in Southeast Asia has a strategic location for business and investment. After the economic crisis in 1998 and 2009, Indonesia could be passed it away until present. It can be seen by the increasing of growth domestic product. Currently, the Indonesian government began to encourage the public and private institution to achieve sustainable development and compete in globalization. However, there are a lot of challenges for the stakeholders to reach the goals. The strategy that has been done by the private sectors is implementing corporate social responsibilities (CSR) as company’s program. Keivani (2009) stated that CSR program by private sector could be supporting the government to achieve sustainable development. Since the concept of triple bottom line in CSR also exist in sustainable development component. The triple bottom lines by Keivani (2009) consist of: (i) People that associated on social justice, (ii) planet that associated on environmental quality, and (iii) profit which related with economic prosperity. Based on this concept, the private sector also has a duty in realizing sustainable development goals. In General, to complete the sustainable development goals is not only private company’s responsible or government, but it also dependable from all of development actors. The three development actors are government as policy makers, private sectors as capital models, and society as the vulnerable development objects. The communication abilities and having adequate knowledge are the most essential things for actors to have it. This paper discuss about how do the private sectors in Indonesia embrace the other stakeholders of development actors (which are government and community) to achieve sustainable development without ignoring their business objectives. By using the Equator Principles that focused on social and environmental management and sustainability framework by the International Finance Corporation, it expected to give some new approaches for the companies to protect their business process.

Keywords

Corporate social responsibilities, Sustainable development, Sustainability framework.

Introduction

After the monetary crisis in 1998 and global crisis 2009, the economic development in Indonesia is still speeding. It can be seen through the Indonesian gross domestic product (GDP) each year (Figure 1). As the archipelagic country in Southeast Asia, Indonesia has abundant of natural resources with strategic location. All of those advantages make Indonesia become one of the most interesting areas for a shareholder to invest and doing their business investment.

Recognizing the economic development growth in Indonesia will be expanded in the future, and then it is required to make the investment climate become stables. Minimize the significant risks that could be threatened in the ongoing business is a must to do. However, in the reality it is hard to do, as the insufficient knowledge of shareholder about the other important stakeholders. At the end, the problems that arise from the risks would be returned to the private company and shareholder.

Based on the …? Choe mau nulis apa-kah?

Oil and gas industries are the most exposed by the other stakeholders in their business activities. As we known that the exploration and exploitation activities are the most frequently to do by these sectors. In addition, the man behind this business activity is considered as the most responsible for the mess in their project areas. Therefore, the risks that occurred on the oil and gas company become quite vulnerable.

One of the efforts that have been made by the oil and gas companies in reducing their risks is implementing of corporate social responsibilities (CSR) programs. However, there is plenty of oil and gas companies use the CSR programs as reactive action, then anticipative tactic. Then, it is not surprising when the private companies are viewed as money machine that can be asked to fulfill their needs any time by the government and civil society in the project areas and surrounding’s.

This paper would like to give a broader knowledge to the development actors, especially private sectors, about the role that should be taken by them in facing the risks. Based on the International Standard, which are the Equator Principles (EP) and Performance Standard (PS) by International Corporation, the private sector is expected to reorganize their performance management in managing and mitigating the risks through their

Figure 1: Indonesia’s growth domestic product growth. Sources: http://www.worldbank.org/en/country/indonesia
business management. Afterward, the risk can be detected as early as possible and mitigated immediately.

**CSR in business practices**

As the development actor, the private sectors have a very significant role. Nevertheless, they are repeatedly got questions about their roles in the development. Frequently, the private sector is blamed by the government and civil society as the selfish and greedy institutions. The private sector is considered as an institution that only thinks about their own profit and not concerned to the government and communities. This situation spread the gap between private sector and civil society as the most vulnerable impact.

Through the implementation of CSR, the private sectors are optimist to eliminate those gaps. It also related with the private sectors duty in realizing the sustainable development goals. The strategy through CSR that has been taken by the private sectors also supported by the government. The Indonesia government is arrange the CSR regulation within the legislation no. 40 year 2007 about Incorporated Company (Perseroan Terbatas).

In that legislation, there is one clause that explains about the company and their social responsibility. The clause no. 74 verse 1 stated “every company must implement the social and environmental responsibility when they do the business activities, which related to natural resources.” The incorporated company legislation also explained the definition of social and environmental responsibility (Susanto, 2009).

**Through CSR for sustainable development**

Maignan and Ferrel (2004) in (Susanto, 2009) defines CSR as “A business acts in socially responsible manner when its decision and actions account for and balance diverse stakeholder interests.” This definition emphasizes the need of giving the balanced attention to the interests of various stakeholders in every decision and action undertaken by the actors to behave in social business and responsible ((Susanto, 2009); Noor, 2011).

Another definition explained by Elkington in 1998 (Susanto, 2009; Noor, 2011) he stated that to establish their social responsibility, a company is obligated to give their attention to the surrounding community, environment, and economic qualities. In CSR’s point of view this concept called triple bottom line, which includes people (related to the social sustainability), planet (related to the environmental quality and environmental sustainability) and profit (associated with the economic prosperity and economic sustainability) (Susanto, 2009; Noor, 2011). Herewith the explanations about the three components on sustainable development, as well as triple bottom line, there were:

**People or social sustainability**

Population and quality of living condition are very important indicators of social sustainability achievement in sustainable development. The social aspect has an important link with development and quality of life. Related to the inter-generation and intra-generation concept in sustainable development, there is a strong relationship between the densities of population with the accessibility in fulfillment of the basic needs. The social sustainability in sustainable development will be measured by the density of population and their accessibility to fulfill their basic needs, such as health condition, education, migration rates, and degree of urbanization.

In operationalizing the sustainable development, the social sustainability part is quite difficult. It is because it deals with the people and society, but this part is also the most relevant approach when doing sustainable development process.

**Planet or environmental sustainability**

The definition of sustainable development implies that in achieving the sustainable condition and fulfilled the needs of today and future generation; it needs to maintain the qualities of the environment. The environmental sustainability is the ability in maintaining the qualities of physical environment (Sutton in Susanto, 2009; Noor, 2011).

There are several issues and challenges to make sustainable environment, such as destruction of the living condition (habitats of native species), pollution from the chemicals and other materials into the environment, emission which causes the climate change. Based on these issues, the environmental sustainability programs need to reduce these existing problems.

**Profit or economic sustainability**

Welfare and good level of well-being living condition are the ultimate objective of development process. Related to the concept of sustainable development which states about the fulfillment of the need between today generation and future generation, automatically it is also related to the economic activities. Elliot (Susanto, 2009; Noor, 2011) stated that there is no the exact means of “needs,” it is because there is different point of views of the people in interpreting about needs itself.

The main aim of development is to keep the basic attributes of sustainability as security, harmony, stability, and peace. In the large scale it might be difficult to measure, however, sometimes it can be seen from the income per capita (GDP), the equality of income and consumption such as agricultural productivity, and degree of industrialization such as the rate of employment and unemployment.

Based on the explanation above, it can be seen that the private company through their CSR program have strong contribution to minimize risks, as well as to realize the sustainable development goals.

**Business process management (BPM)**

However, in practices to reach the balance position between economic, environmental, and social communities are the most difficult things to do. It is caused by in managing the risks, the division in the company usually moving on their own. The disintegrated between each division in business management makes the handling of risks become overlapping or being ignorance. Lack of communication relation and treat the risks in the internal management is need to be solved soon. Since, it is important to be addressed the internal settlement before solving the external problems.
In achieving the business goals, a company is required to carry out the BPM. BPM is a concept that can be used to support the implementation of business processes. BPM is several activities that used to ensure that the main goals of the company’s are reached. In the process to support business process management, key performance indicator (or usually called KPI) used to be a benchmark for the company’s performance. So, it’s become important to build a relationship between the corporate strategy and business process management. Han, (2009).

Choe, apakah gambarnya dapat di buat dalam grafik melingkar, artinya sebuah proses yang iterative. Gambarn yang Choe letakkan terbacanya bahwa kegiatan business process hanya berhenti sampai dengan reporting, padahal dalam reporting tersebut ada rekomendasi untuk perbaikan, baik untuk perbaikan di assessment atau perbaikan di planning maupun di implemention.

Based on the author’s experience, there were several steps in BPM. However, in oil and gas company, commonly they are used five steps in implementing their BPM. Figure 2 shows the description of each step of BPM in oil and gas company, there are:

1. Assessment: In the BPM, assessment part has many functions. In mitigating the risks, the assessment can be used for mapping and to diagnose the risk that will be or has been emerged. Assessment also can be used to measure the company’s ability in managing and facing the risks. Through the assessment process, there are various benefit for the companies, such as to provide the information about the risk that will occur, to consider the potential risk that will appear, to determine the company’s need to facing the risk, and etc.

2. Planning: The following phase is conducting the strategic planning to tackle the risk. Strategic planning is the process that would be done by the company by using their potential resources. Usually in the strategic planning, the company is defined their decision making by using business analytical techniques. Based on their business analytical thinking then it will find the minimum risk with the maximum results. Then, it is required a specialized department to manage and to discover their analysis for a new strategic innovation in mitigating and reducing the risk

3. Implementation: Quite different with the two previous phases, the implementation stage is more concrete. As the follow-up of assessment and planning, implementation process is quite difficult since at this phase required to adjust between the real situation and concept in behind the desk. The implementation process, the company usually failed to deal with the other stakeholders. Frequently the company is need to re-arrange their plan and re-find the form that most suitable for the stakeholders

4. Evaluation: Following phase is evaluation. This stage is important part of the business process since it is related with appraising process. The appraisal is necessary to measure the effectivity of each phase that has been done. The result of the appraisal will be presenting the effectivity of strategy that used by the company in managing and mitigating the risk. In addition, on the evaluation phase will be gained the situation and condition of the company, as well as the policies that will be taken by the company in minimize the risk

5. Reporting: As the latest phase on BPM in mining industry, reporting has an important point. Reporting will be exhibiting the company’s performance look alike. Since it is directly related with the KPI of the company, accountability and transparency in providing the information is a must. Reporting also can be used as a one-way communication from the company to their stakeholder.

The Integration of International Standard in BPM

Those five points are the cycle in the company, and will minimize the risks as long as those are used appropriately. However, in mitigating risk process, the action that taken by the private sectors is still reactive not anticipative. Usually, the private sectors will take a movement after the threaten has been occurred to them. Based on that fact, to minimize the risk that intimidates the company’s stability, it would be easier if the company has a standard in management and implementation. There were several standard in the international level that can be followed by the company in carry out their activities. There are EP and PS that issued by International Finance Corporation (IFC).

The EP

The EP is a management framework to reducing the risk that adopted from International Finance Institutions. Usually, EP is used to determine, to assess and to manage the risk that will arise in the project, particularly which related to social and environmental aspects. The principles which are consist in the EP, is intended to provide the minimum standards to support the decision-making process in handling the risks. Several financial institutions have committed to use the EP principles on their internal organization. Those principles are included on their social and environmental policies, and also their procedure and standard for the company’s project.

EP through their principles has been given their attention for the social standard that required to be handling. Moreover, on their principles also explained in how the company’s need to responsible for their project impact to the other stakeholders. Public consultation is become an important thing in EP to minimize the impact to the civil society. Through those principles, EP also energizing the socio-economic growth in managing the social and environmental as the private sector’s responsibility.

The EP is proposed for any industrial sectors to managing the social and environmental issues on the project costing. The function impact from EP is to harmonize between the private sectors project costing with International Financial Institution. Herewith the 10 principles that consist in the EP to handling the

Figure 2: Business process management in oil and gas company. Source: Author’s Illustration

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issues, there are:

- EP1: Review and categorization
- EP2: Social and environmental assessment
- EP3: Applicable social and environmental standards
- EP4: Social and environmental management system and EP action plan
- EP5: Stakeholder engagement
- EP6: Grievance mechanism
- EP7: Independent review
- EP8: Covenants (conditions of disbursement)
- EP9: Independent monitoring and reporting; and

**PS by IFC**

As the one of the most influence international finance institution, IFC is lead to practice the EP’s. Through their sustainability framework, IFC has committed to assist their potential client in achieving the sustainable development goals. In addition, the IFC sustainability framework is also used for risk management in the company. The sustainable framework of IFC is described the commitment and the responsible of the private sectors to act properly for social and environmental.

Through the PS which issued by IFC to their client, it is provide a comprehensive information to identified the risk and impact. Based on the IFC PS, it also helped the company to avoid, to mitigate, and to manage the risks and impacts for their business program. The IFC PS also implemented in how to engage the stakeholders.

In the implementation process of IFC PS, in managing the risk as well as minimize the social and environmental impact, IFC provide some opportunities to be improved. The chances that have been owned can be elaborated to be a long-term solution in managing the risks. It can also be handling together with the company’s strategy and policy. Through the IFC PS, the company also directed as a business activities that can achieve the development objectives.

Following is the IFC PS as compliance with standard that should be owned by every company in carried out its activities, including:

- PS1: Assessment and management of environmental and social risks and impacts
- PS2: Labor and working conditions
- PS3: Resource efficiency and pollution prevention
- PS4: Community health, safety, and security
- PS5: Land acquisition and involuntary resettlement
- PS6: Biodiversity conservation and sustainable management of living natural resources
- PS7: Indigenous people
- PS8: Cultural heritage.

**The Integration of BPM and International Standard**

Based on the explanation of international standards and assessing BPM that has been done by the company, then international standards will help in achieving the main objective of the business activities. The international standards and its principles can evaluate and may know the problems that faced by the company. If it’s integrated in the BPM, then it will easily to find which parts that must be modified. At the end, the integration between BPM and international standards can be minimized the risks that faced by the company.

There are several failure factors of the company in minimizing the risk, although the company has been carried out the CSR program activities. The most affecting factor is disintegrated between BPM and basic principles on EP’s and performance standard IFC on their business activities. Following is reference that can be used by companies in integrating the international standard and BPM.

Based on the Table 1, it can be seen that EP number 5, which is consultation and disclosure is the important part. The EP5 is required to accomplish on every BPM steps. Consultation and disclosure are referred to stakeholder engagement.

**Stakeholder engagement as the key**

In operating their business activities, it is important for the company to meet their main goals. One of the strategic that has been taken by the company is implementing their CSR program. CSR is considered as the most appropriate strategic for the company. However, it is required to considering their strategy before applying it.

Related to that point, then the approach that can be taken is to gain comprehensive information from various stakeholders. The stakeholder engagement is a process to involve an individual or organization that has significance part on company’s decision. The result of stakeholders’ involvement can be two things, which are act as to support the company or against the company’s decision. Both of them are have a strong influence in implementing the business strategic.

In the CSR implementation scheme, frequently stakeholder engagement is the most important part that must be done. Especially in the mining companies, dialog with the stakeholder has a significant result to gain the information about the stakeholder characters. In the EPs, specifically in EP5, the stakeholder engagement and stakeholder involvement becomes important in every element to be achieved. As well as for the company if they want to apply IFC PS, stakeholder engagement is the principal key.

In the 2014, the Independent Project Analysis (IPA) Global in their research stated that stakeholder engagement is verified to minimize the (potential) risks (Figure 3). Based on the Figure 3, it can be seen that when the company does not take any action, then it will obtain the huge risks. Meanwhile, if the company only takes one action such as baseline studies, at least the risk impact will be decreased slightly. It will also be affected the

**Table 1: Integration of BPM and EP**

<table>
<thead>
<tr>
<th>BPM</th>
<th>EP</th>
</tr>
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<tbody>
<tr>
<td>Planning</td>
<td>EP4, EP5</td>
</tr>
<tr>
<td>Implementation</td>
<td>EP5, EP6</td>
</tr>
<tr>
<td>Reporting</td>
<td>EP5, EP10</td>
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</table>

BPM: Business process management, EP: Equator principles
company in mitigating their risks, if the company’s taking the all four key practices (The Equator Principles III).

**A Way for Stakeholder Engagement Implementation**

Based on the key practices of IPA global, it can be seen that there are four steps that should be taken by the company before running the stakeholder engagement. Those four steps are effective to minimize the risks that would be disturbed the business process. Herewith the explanation of each step, there were:

1. **Baseline studies:** It is the basic part before starting the stakeholder engagement. This part is important to do as the initial analysis to gain information about environment and social impact assessment (ESIA or in Indonesian well-known as AMDAL) in the project areas and surrounding. In addition, this section also provides comprehensive information about the social environmental aspects.

2. **Stakeholder identification:** The important thing that needed to know by the company is a basic principle of stakeholder involvement. Identified to gain the information can be from anywhere and everywhere, either individuals or organizations. On this section, it could be worthy if the company’s recognize the roles of each development actors. Comprehensive information of each development actors becomes important as the basic for the company’s strategy. Following is the three actors of development who frequently involved in the stakeholder engagement activities, there are:
   a. Government: As the highest authority, the government role is to regulate and to protect the activity of its citizens, including caring the business investment and investors. The government itself has three main roles, there are: (1) As a develop organization, (2) as a consensus building or democracy, and (3) as a security and protecting the citizens. The output of the government roles is policies that provide a safeguard and well-being for its citizens.
   b. Private sectors: The role of private sectors is linked to the economic growth of its country. As the owner of capital models, private sectors have capability to give benefit for the government and civil society. Through their service provided and economic empowerments, the company also has responsibility to support the sustainable development goals of its country.
   c. Civil society: In many activities that have been undertaken by the government and private sectors, the most vulnerable who get the impact is civil society. As a group of individuals who have culture and values, frequently the impact results have different perception, either pros or contras. To facing that fact, the company is required to have broadened knowledge about the life values of civil society. The pentagon assets which consist of: (1) Human capital, (2) social capital, (3) natural capital, (4) physical capital, and (5) financial capital, are important points for the company to understand of the society.

3. **Community engagement:** After the company having knowledge about the roles and risks level of the stakeholders, the next step is the process of stakeholders’ involvement to the company’s activities. On this engagement, the company can used which strategy that the most suitable for the company’s need and stakeholder interest. The essence of this stage is how to create the trust between both parties, which are the company and stakeholders. It is become required to establish the favorable conditions. Consequently, the company’s goals can be achieved without bothering the stakeholders’ interest.

4. **Communication mechanism:** In order to build the trust, the company should need two-way communication with their all stakeholders. The best communication mechanism will give good results in gathering and delivering the information. The information can be related with the company’s report or stakeholders’ update. The company that is able to perform two-way communication with their stakeholders absolutely has their own perception.

As mentioned before, stakeholder engagement is able to minimize the risk if those all of four stages completed. To realize and improving the stakeholder engagement idea, then it is required to have a method that can be accessed by all of stakeholders. Public participation is the most effective medium to distribute the information about the stakeholders’ activities, including the private sectors.

The International Association of Public Participation (IAP2) has been developed some important values for public participations practices. Through the public participation’s basic values, then the objectives of both side will be fulfilled. Furthermore, the public participation can be used as the medium to deliver the stakeholders’ desires and their expectations. Herewith the IAP2 basic values on public participation:

1. Public participation is based on the belief that those who are affected by a decision have a right to be involved in the decision-making process.
2. Public participation includes the promise that the public’s contribution will influence the decision.
3. Public participation promotes sustainable decisions by recognizing and communicating the needs and interests of all participants, including decision makers.
4. Public participation seeks out and facilitates the involvement of those potentially affected by or interested decision.
5. Public participation seeks input from participants in designing how they participate.
6. Public participation provides participants with the information they need to participate in a meaningful way.
7. Public participation communicates to participants how their input affected the decision.
In order to increase the stakeholder engagement, IAP2 also introduce a spectrum that can be used as a standard in the decision-making process. Herewith the scheme;

Based on the basic valued that held by IAP2, in the process of public participation, this scheme will help the company to determine the most suitable strategy and approach to the stakeholders. The spectrum level and approach strategy that will be taken by the company depended on the result of stakeholder identification and risk analysis. The spectrum also described in how to communicate effectively to the stakeholder with level of risk. Moreover, to strengthen the engagement, the level of public participation can also be used as a benchmark for company’s decision making. At the end, the engagement level will lead to empower stage, which is all of stakeholder together with the company will be implementing their decision to achieve their objectives (Figure 4).

**Conclusion**

Nowadays, CSR is like a part of the company rules in their business activities. Several companies are used CSR programs to carry out their business activities in the long term, both for profit reason and for the sustainability of the company. Based on that particular point, many companies then used CSR as their method to attract the community before running the business activities in the area (Noor, 2011).

Cooperation and commitment among stakeholders are very crucial aspects in achieving the sustainable development goals.

It is also related with the business activities that it needs the commitment from the entire stakeholders in order to make this project running well and can be implemented to achieve the goals. Elkington also stated that the concept of triple bottom line in CSR is an important point of a company to sustain their business. The role of the company is not only raising their profit but also improving community’s welfare and contributing to protect the environment (Noor, 2011).

The commitments and activities on the implementation of CSR refers to the following aspects of the corporate behavior which is related to the two basic elements (Noor, 2011):

1. **Good corporate governance:** This element is more concerned to the internal responsibilities, which includes the business ethics, human resources management, employment of social security, health and safety for internal component in business area.

2. **Good corporate responsibility:** This element is concerned with external responsibilities. In this part, their concerns include the company as taxes compliant, the provision of jobs that have skill competence, increasing society welfare, and preserving the environment quality for the future generation.

In general, there are three important reasons why companies need to respond and develop CSR issues in their business operations, they are (Noor, 2011);

1. **The company is part of the community, so it is important to consider the interests of society.** This activity serves as compensation or return for effort over control of natural resources, economic and companies, which is exploratory and expansive. In addition, social compensation is provided by the company toward the public arising from the inconvenience of the public that caused by the lack of regulation.

2. **Businesses and communities should have a good relation such as symbiotic mutualism.** In order to create a harmony relationship between corporate and community, the implementation of a CSR programs is not merely economic activities to maximize profits, but also responsibility in social and the environment areas.

3. **CSR is a tool to reduce and avoid social conflict.** Tendency is bigger, the potential for conflict exists because the impact of company operations, or social and economic disparities.

![Figure 4: Public participation spectrum, Source: IAP2](image_url)

### Table 2: PS-IFC in the internal company’s structure

<table>
<thead>
<tr>
<th>PS-IFC</th>
<th>Company’s structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>PS1: Assessment and management of environmental and social risks and impacts</td>
<td>Integrated division</td>
</tr>
<tr>
<td>PS2: Labor and working conditions</td>
<td>Human resources</td>
</tr>
<tr>
<td>PS3: Resource efficiency and pollution prevention</td>
<td>Health safety environment</td>
</tr>
<tr>
<td>PS4: Community health, safety, and security</td>
<td>Social, occupational health and safety plus security</td>
</tr>
<tr>
<td>PS5: Land acquisition and involuntary resettlement</td>
<td>Legal and social (CSR)</td>
</tr>
<tr>
<td>PS6: Biodiversity conservation and sustainable management of living natural resources</td>
<td>Environmental</td>
</tr>
<tr>
<td>PS7: Indigenous peoples</td>
<td>Social</td>
</tr>
<tr>
<td>PS8: Cultural heritage</td>
<td>Social</td>
</tr>
</tbody>
</table>

PS-IFC: Performance Standard-International Finance Corporation, CSR: Corporate social responsibilities
**Recommendation**

A number of key actions to be undertaken for effective management as well as CSR management in accordance with the integration value of various international best practices standards are as follows:

1. In the CSR companies with people development-oriented values, collaboration with government to realize the development is required to do as a part of business strategy. Then the three-party collaboration, which are government, the private sector, and community, will give the benefit for people as the main beneficiaries.

2. The IFC PS is the required part that should have to do by the companies, either on their CSR program implementation (external) or in the internal of the companies itself. Based on this fact, it is important to improve their existing procedure in the company and integrated the IFC PS with the corporate’s structure. Usually in the oil and gas company, the related department that the most relevant are Human Resources, Health Safety Environment, Project Development, Legal Division, and CSR Division. Herewith the recommendation on how to integrate between IFC PS and company’s structure.

3. In managing CSR and reducing the risks, the companies are required to implement the stakeholder engagement plan, which is consist of: (1) Baseline study, (2) stakeholder identification, (3) community engagement, and (4) communication mechanism. If it was exist, then the companies are expected to improve those each step in their engagement plan.

4. Improve the CSR action plan by using the stakeholder engagement that complied with public participation spectrum. Based on the stakeholder identification and potential risk that brought by the stakeholders, companies can used which strategy as in the participation spectrum. However, the level of participation to the each stakeholder also needs to be improved to the next level. It should be done by the companies to gain the information how effective their engagement in reducing the (potential) risks.

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