

## Development of A Guideline For The Implementation and Assessment of Mining, Oil And Gas CSR Programs In Indonesia

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### Abstract

This study is focused on formulating a guideline for the implementation and assessment of corporate social responsibility (CSR) activities, especially in the mining, oil and gas industries in Indonesia. The local community is recognized as the main stakeholder in corporate social responsibility, as it is the institution that receives the most impact of the industry's presence and activities. The study uses the survey, in-depth interview, observation and secondary data collection techniques. Based on findings from previous research, there are five important outcomes of CSR activities that need to be developed in mining, oil and gas industry CSR programs, namely 1) achievement of legal compliance, 2) improvement of corporate image, 3) increasing welfare of the community, 4) improved capability of the community to develop itself, and 5) creation of social integration between the corporation and the local community. In order to achieve the goals, a guideline for the method and substance of implementation and evaluation of CSR activities is developed. The output of this study is the creation of a guideline to implement and assess CSR activities, especially for the local communities in which a corporation operates.

**Key words:** CSR, local community, guideline of implementation and evaluation

### 1. Introduction

There is a substantial body of knowledge regarding corporate social responsibility (CSR) in Indonesia, however, development of a specific CSR handbook for the mining, oil and gas industry has been lacking. Several of the existing studies on the subject tended to highlight the political economy and cultural dimensions in relation to the presence and activities of mining, oil and gas enterprises, and did not focus on the practice of corporate social responsibility. More specifically, what are required by CSR practitioners in the mining, oil and gas industries are methods and guidance on developing and practicing CSR activities, from the planning phase, through the implementation up to the assessment of its success. Such specific needs have not been met, because academics are generally more interested and involved in the development of the concepts and theories.

This study shows the development of the methods for implementation and assessment of CSR program, particularly for local community stakeholders in the mining, oil and gas industries in the Indonesian case. Local community stakeholders are indeed the main target of CSR activities, being the institution that is most affected, either positively or negatively, by the presence and activities of mining, oil and gas corporations; therefore corporate social responsibility should be primarily directed to the local community. Indeed there are a number of other stakeholders in CSR in disciplines such as business and management, yet they do not treat the local community as the top priority. In this study, local communities are returned to their rightful place as the major stakeholder in the CSR of mining, oil and gas industries, so that they become the main focus in the implementation and assessment of CSR activities.

Based on existing research findings, CSR programs for mining, oil and gas industries should be directed specifically to five dimensions and important goals of CSR: 1) achievement of legal compliance, 2) improvement of corporate image, 3) increasing welfare of the community, 4) improved capability of the community to develop itself, and 5) creation of social integration between the corporation and the local community. This guideline for the implementation and assessment of CSR activities in the mining, oil and gas industries is consistently focused on achieving these five goals.

### 2. Framework and Focus

This study is focused on the process of developing guidelines for the implementation and assessment of CSR programs, based on indicators and measurement indices that have been developed in previous studies. The

operationalization of indicators and measurement tools are tested in the case of two corporations: one oil company and one coal mine. The results of the previous field studies were developed into indicators for the handbook of CSR implementation and assessment. Overall, these indicators are covered in various definitions of CSR, as alluded to by some definitions (see Benn and Bolton, 2011; Hennigfeld et al., 2006; May et al., 2007; Jonker et al., 2006; Carroll, 1999). Similar definitions are included in normative documents such as MDGs, Global Compact and ISO 26000. In Indonesia, technically CSR aspects also accommodate article 74 of Law No. 40/2007, even the BP Migas and Mining Act, in relation to the obligation of implementing CSR.

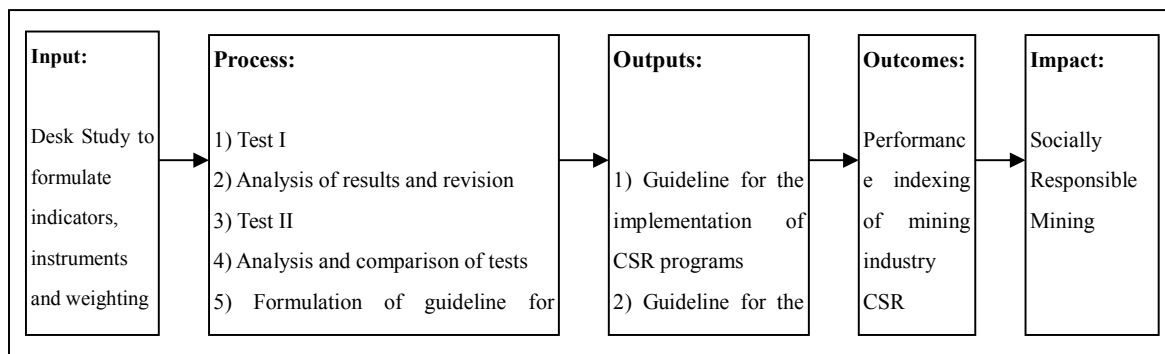
Compared to other technical definitions of CSR, this study includes business aspects (in the form of corporate image) and social integration between the corporation and local communities. Regarding the business aspect, image of oil, gas and mining corporations is very important, because corporate social performance, which can determine share prices, is *inter alia* determined by CSR practices. Thus human rights violations and local community development activities can help determining shareholder investment decisions. Similarly, in the case of social integration, learning from a number of cases, the success of a mining company is not only located in its ability to mine and market minerals, but also in its integration with the local community (Prayogo, 2008). Social legitimacy is an important concept to the company's operations to ensure its operations, and is more than just a concept of "social license to operate".

In addition, the aspects of local community capacity building and improving economic welfare are certainly very important for the corporation. Any mining, oil and gas industries will find it difficult to carry out activities if there is a sharp economic inequality with the surrounding community. Therefore, the reduction of economic inequality is an important part of the CSR agenda (Prayogo, 2010). All these aspects and indicators were tested in field studies, and further developed into a guideline for the implementation and assessment of CSR activities in the mining, oil and gas industries. By accommodating all these aspects, the strength of this study lies in the inclusion of industrial specifics and local specifics as part of the considerations, namely the impact of the mining presence and activities seen socially and accommodated into CSR activities.

### 3. Method

This study uses a quantitative approach using a deductive technique. With this approach, the preparation of the guideline for the implementation and assessment is done by first formulating the conception of CSR through desk study, followed by operationalization in the form of guidelines. There are a number of steps taken in a linear fashion, as follows:

**Figure 1. Logical Framework of the Research**



This study begins with doing a review of literatures identifying the main stages in the implementation of CSR programs on mining, oil and gas corporations, namely: a) situation analysis, b) preparation, c) implementation, and d) assessment. The four basic steps become the framework of the guidelines for the implementation and assessment being developed. Once that was done, the guidelines and instruments are tested on one mining and one oil and gas companies each, which have already implemented CSR programs for at least 3-5 years. The consideration is that such companies fulfilling the criteria are assumed to have carried out a number of stages such as situation analysis, planning, implementation, monitoring and evaluation. The test was conducted using desk study on corporate CSR documents,

survey to 150 beneficiary respondents, as well as in-depth interviews and focus group discussions with the corporation as the program executives, community leaders, and representatives of the beneficiaries.

After the testing is done, a number of steps are taken: 1) analysis and comparison of the test results (conducted in every tested aspect, such as indicators, instruments, and weighting), 2) finalization of guidelines for the implementation of CSR programs, and 3) the preparation of guidelines for the assessment of CSR program implementation in the mining, oil and gas industries, complete with weights and the guides for usage.

#### 4. Analysis

##### 4.1. Guideline for the Execution of CSR Programs

The implementation of CSR programs can be divided into four stages, namely: 1) situation analysis phase, encompassing an assessment of both internal and external circumstances, 2) planning stage, encompassing program planning based on the situation analysis, 3) implementation phase, encompassing preparation, execution and monitoring of activities, and finally, 4) assessment stage, encompassing evaluation of all activities that have been carried out. The entire stages are "controlled" by policies, both internal corporate policies and external policy directed by the state. In the management aspect, these four stages are a cyclical model that puts CSR activities in a process that is continuously being refined. With this model, CSR activities of mining, oil and gas corporations can be seen as a process that is socially sustainable in negating or minimizing social injustice and social inequality caused by the presence and activity of mining, oil and gas industries.

The implementation guidelines are based on the project cycle definition according to Goodman and Ralph (1980), which emphasizes four main stages, namely: 1) situation analysis, 2) planning, 3) implementation, and 4) monitoring-evaluation. However, in the process of developing the implementation guidelines, the team saw that it would be appropriate to separate the monitoring process from evaluation because these have different methodological implications. Monitoring is a routine activity that is more appropriate to be integrated in the implementation stage, while evaluation should be approached independently due to limitations of time, executors, aspects and scope that must be set in detail so that the evaluation mechanism can provide adequate feedback.

The implementation guidelines are intended to be a reference for CSR programs executors, and thus should be made in clear stages, be detailed, easily understood and practiced, so that it will facilitate the assessment mechanism later. Referring to our previous study from the previous year, important indicators that should be given attention in CSR practice are: 1) compliance with legal aspects, 2) establishing or improving corporate image, 3) oriented towards community welfare as targets of the programs, 4) be useful in achieving integration between the community and the corporation, and 5) paying attention to important aspects of community development such as participation, empowerment and so on. Therefore the CSR implementation guidelines are equipped with indicators that need consideration in the implementation of each stage. Furthermore, to ensure accountability, the output of each stage is also described in the guidelines in order to be a reference for executors and evaluators.

**Indicators to be noted:**

- (1) legal
- (2) business
- (3) welfare
- (4) integration

**Main stages:**

- (1) Situation analysis
- (2) Planning
- (3) Implementation
- (3.a) Preparation

**Table 1. Stages in the Implementation of CSR Programs of Mining, Oil and Gas Corporations**

No	Stages	Activities	Indicators					Output
			1	2	3	4	5	
1	Situation Analysis							
1.a	External	Perform social baseline study			√	√	√	Social baseline study report
		Perform social mapping			√	√	√	Social mapping study report
		Formulate needs assessment			√	√	√	Needs assessment document
1.b	Internal	Calculate CSR funding capabilities	√	√				Analysis document on internal conditions on CSR
		Calculate CSR staff capabilities	√	√				
		Calculate CSR organizational capability	√	√				
2	Planning (Strategic Planning)	Referring to government programs	√		√	√	√	Documents on identifying corresponding government programs
		Identifying local potentials			√	√	√	Matrix identifying local potentials and important implications to the program
		Deciding focus of CSR program and priorities of scale	√		√			CSR program design document
		Deciding target outcomes of CSR programs			√		√	CSR program design document
		Deciding CSR target beneficiaries	√	√	√	√	√	CSR program design document
3	Implementation							
3.a	Preparation	Forming stakeholder forum	√	√	√	√	√	Proposal to create stakeholder forum Formation of the forum
		Distributing roles of each stakeholder in the forum	√	√	√	√	√	Documents such as forum constitution/bylaws
		Selecting CSR program executives	√	√	√	√	√	CSR program design document
		Recruiting program executive staff	√	√	√	√	√	Document on qualifications of program executives
		Provide training to program executives	√	√	√	√	√	Document on types of training and materials for training
		Find resource opportunities from partners	√	√	√	√	√	
		Building communications with stakeholders	√	√	√	√	√	
3.b	Execution	Socializing planned CSR activities	√	√	√	√	√	Report on execution of socialization and materials of socialization

		Execution of activities	√	√	√	√	√	Activity report
3.c	Monitoring	Selecting aspects to be monitored	√	√	√	√	√	Monitoring instruments and monitoring results report
4	Evaluation	Deciding scope of evaluation	√	√	√	√	√	
		Deciding evaluation executives	√	√	√	√	√	
		Deciding aspects to be evaluated	√	√	√	√	√	Evaluation instruments
		Feedback of evaluation results to the program design	√	√	√	√	√	Evaluation results report

#### 4.2 Guideline for the Evaluation of CSR Programs

As a part of the attempt to return CSR to local communities, the CSR program evaluation guideline should also incorporate the importance of their perspectives. The local communities meant in this case are communities living around the operational area of mining, oil and gas corporations, either beneficiaries or non-beneficiaries of the CSR program. Thus, assessment of the CSR program needs to comprehensively include evaluation from both assessors and beneficiaries.

Due to the different perspectives between the beneficiaries and non-beneficiaries regarding the CSR program, the instrument, weighting and technique used for evaluation are different between the two groups. Among the beneficiaries, their assessment is collected through a survey using a rigid method, technique and questionnaire, which result in an objective assessment of the CSR program. Evaluation given by non-beneficiaries of CSR programs is given by credible assessors, who have appropriate standardized skills, by referring to a formalized evaluation guideline using a data collection technique consisting of interview notes, observation and related secondary data, from both the community and the corporation to be evaluated.

The assessors are an important key in the process of evaluating CSR programs of mining, oil and gas corporations, and thus mastery of the instruments, skills in tracking data and thoroughness in observation are required from each assessor. In order to produce accountable assessment, these assessors need to be provided with training or certification, before they begin their evaluation. The training and certification must also be done by people who have an excellent grasp of the guideline and evaluation instrument.

#### 4.2.a Trials Of Guideline And Evaluation Instruments

##### 1. Instrument of Evaluation by Assessors

The guidelines for assessment by assessors are split into two parts: the first being the assessment guidelines for legal indicators compiled by making a list of statements with each statement having two categories of conditions/outcomes of CSR programs that have been implemented, of which the choices are "yes" or "no". These legal indicators emphasize fulfillment of legal or administrative requirements by the corporation, so the category "yes" has a higher score than "no". Second, the assessment guidelines for the other four indicators are arranged in a list of statements, with each statement having four categories of conditions achieved by the community as the implication of the implementation of the corporation's CSR program. The response categories are generally nominal and have no connection with each other. The better the condition achieved by the local community due to CSR activities, the higher the scores obtained on the instrument.

In general, the trial results of the evaluation instruments can be applied in the field; even informants and resource persons in the field suggested questions about the completeness of work instruction and document on risk mitigation plans in the social aspect. Important findings of the instrument trial are: 1) several activities mentioned in the statements in the instrument are executed using terms specific to each corporation, and (2) several activities mentioned in the statements have been implemented by the corporation in concurrence.

The main factor that makes this instrument can be applied is the appraiser has adequate knowledge and skills in conducting assessments. This underscores the importance of mastering an instrument appraiser with sufficient

knowledge of the social aspects of the validity of the decisions taken in order to awake and have a solid foundation and supported by the data, in the form of interviews, observation, assessment or other relevant secondary data.

### **2. Instrument of Evaluation by Beneficiaries (Questionnaire)**

The results of trials on the questionnaire draft to the beneficiaries of the CSR program show several issues in its application. These are: (1) limitations due to the word choices used in the questionnaire results in a lack of understanding towards some of the questions posed, (2) response categories limited to "yes" and "no" results in respondents tending to answer "yes", (3) several of the questions asked are not applicable because they do not conform with the CSR program received by the beneficiaries, resulting in the answer choice "do not know", (4) use of certain terms that can not be understood by several respondents, due to limited education, resulting in enumerators having to perform specific probing to each respondent, (5) insufficient knowledge of beneficiaries regarding the society, government, or corporation implementing CSR, resulting in "do not know" answers, (6) several questions being too detailed to distinguish by respondents, resulting in comments about the answer being "the same as the answer to the previous question".

### **3. Weighting of indicators and evaluators (Assessors and Beneficiaries)**

The tested draft questionnaire only distinguished the weight of indicators based on several categories, namely: 1) the type of resource extraction activity, namely oil/gas and non-oil/gas, 2) the mining activity, divided into onshore and offshore (for oil and gas), and open pit and underground (for other mines), (3) phases of the mining activity, divided into pre-production, production, and closure, and (4) type of community, divided into rural, urban and a combination of both. The test results show the need to adapt the weights of indicators to a more relevant context. Based on their characteristics, oil/gas and non-oil/gas corporations have different impacts caused by their production activities. However, seen from the aspect of CSR implementation, the distinction is not significant, so the weight of the indicators based on the type of mining were removed and incorporated into the category of "mining companies", both oil/gas and non-oil/gas. Future developments of the instruments may need distinction of the weighting of indicators based on types of mining activities, but this needs to be tested on diverse locations.

The differentiation of indicator weights based on the form of mining activities is not significant in the aspect of CSR program evaluation. In the context of oil/gas corporations (onshore or offshore), there are always contacts with the public, while in the context of mining operations, there are no more underground mining activities in Indonesia. Differentiation in the indicator weights based on the form of mining activities would be more significant in the evaluation on environmental impacts, instead of impacts on the community. Based on these findings, the weighting based on the forms of mining activities can be eliminated.

Weighting by the length of the implementation of CSR programs is more significant when compared to the distinction based on mining phase. Thus, the distinction of the indicator weights on this aspect needs to be adjusted to the length of the implementation of the CSR programs, with the following categories: a) 1-5 years, b) 6-10 years, and c) over 10 years. Adjustments also need to be done on a community types encountered by mining and oil/gas corporations into simpler categories, namely: a) homogeneous and b) heterogeneous. The distinction of the indicator weights based on community heterogeneity (homogeneous and heterogeneous) is more relevant.

Another important finding is related to the necessity of giving different weights between the assessor and the beneficiaries. The weight rating given by the assessors should receive greater weight than those provided by the beneficiaries because they give a more comprehensive assessment than beneficiaries. On the other hand, beneficiaries are only requested to evaluate the program they receive subjectively, without comparing it with other beneficiaries.

## **4.2.b Flows, Principles of Assessment, Principles of Weighting, and Final Assessment of CSR Programs**

### **1. Flow Assessment Program CSR and Sample Calculation**

As mentioned earlier, the evaluation of CSR programs is conducted as shown in Figure 2, which outlines the detailed steps that need to be done to assess CSR programs. The figure explains that CSR program assessment can only be performed by certified assessors who have received training. From the program side, the main criterion used is that the CSR programs to be assessed have been implemented for at least one year.

Another thing to note is the calculation of the sample. Much of the time, there is no information of the population, much less the size. In that case, two sample calculation formulae are presented, one of which is to calculate the number of samples with a known population size, and another formula with which to calculate the number of samples of a population of unknown size. The population here refers to the corporation's CSR program beneficiaries to be assessed. The formula used to calculate the sample size is the Slovin formula:

The formula used to calculate the sample size of a known population is:

$$n = \frac{N}{1 + Ne^2}$$

Note:

n = sample size

N = population size

e = % margin of error, caused by tolerable errors during the taking of the

The formula used to calculate the sample size of an unknown population size is:

$$\frac{Z^2 p(1-p)}{d^2}$$

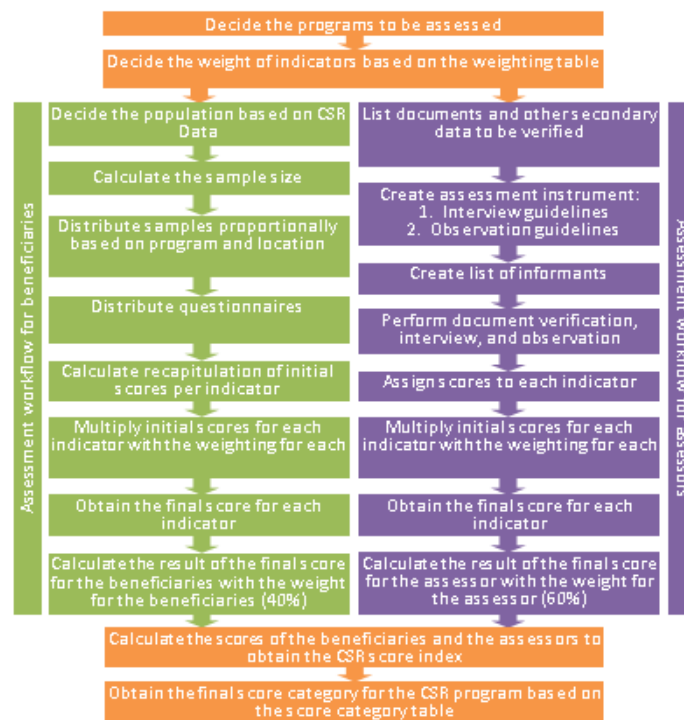
Note:

Z = Z table value for the desired confidence interval (for a value of 95%, the Z table value is 1,96)

p = Proportion (0,5)

d = % margin of error, caused by tolerable errors during the taking of the

**Figure 2. CSR/CD Program Assessment Workflow**



## 2. Suggestions on the Evaluation Instrument

Findings of the instrument trial shows that the instrument used was too abstract, and the instrument still requires further operationalization of the concepts. The instrument for the assessment by the beneficiaries needs some improvement, among others 1) using simpler, easily understandable terms, 2) creating a Q-sheet for the definition of the concepts, 3) developing more detailed, ordinal categories of answers, 4) focusing the questions on the corporate CSR programs received by the beneficiaries, and 5) confirming that the perspective in the questionnaire is the subjective perspective of the respondents as beneficiaries.

## 3. Weighting and Calculation for the Final Score

Based on the trials, the weighting for the indicators and assessors are given according to the following principles:

1. Complexity and variation of the heterogeneity of the society have an implication to the weighting
2. The weighting of the legal and business/image indicators will decrease over time, corresponding to the length of the CSR implementation
3. The weighting of capacity building, welfare and integration indicators grows over time, corresponding to the length of the CSR implementation
4. Good and consistent CSR programs will receive appropriate scores
5. Success level of the CSR program is a combination of the length of implementation and weighting of the indicators.

**Table 2. Indicator Weight Percentage**

Indicators	Length of CSR/CD Implementation					
	1 – 5 Years		6 – 10 Years		> 10 Years	
	Heterogeneity of the Community					
	Homogeneous	Heterogeneous	Homogeneous	Heterogeneous	Homogeneous	Heterogeneous
Legal	40%	40%	15%	20%	10%	15%
Business/Image	30%	30%	20%	20%	15%	15%
Welfare	15%	10%	25%	20%	25%	20%
Capacity Development	10%	10%	20%	20%	25%	25%
Integration	5%	10%	20%	20%	25%	25%

**Table 3. Evaluator Weight Percentage**

No.	Evaluator	Weight
1.	Assessor	60%
2.	Beneficiary (Questionnaire)	40%

One of the important stages in the evaluation workflow is calculating the final score obtained by the CSR program. The final score is calculated from both assessors and beneficiaries, after multiplying the score with the weighting. The value of the final score is compared to the categories provided in Table 4, which will result in the **Corporate CSR Program Score**.

**Table 4. Range and Score Categories**

Score Range	Score Category
4,49 – 12,57	Very Poor
12,58 – 20,65	Poor
20,66 – 28,74	Fair
28,75 – 36,82	Good
36,83 – 44,92	Very Good



## 5. Conclusion

Through CSR, mining, oil and gas companies have the potential to participate in addressing poverty at the local level. To that effect, there is a need for operational and practical methods and tools. This study presents a refinement of indicators for the implementation and evaluation of CSR that has not been much developed, particularly in the CSR of mining, oil and gas industries in Indonesia. The focus and target of CSR activities are the local community. Results of the trial show all aspects of the implementation and assessment of CSR can be used, i.e. legal, business (image), welfare, community capacity building and social integration aspects.

Furthermore, the implementation of CSR is to be divided into four phases, namely Situational Analysis, Planning, Implementation, and Assessment. The entire stages are "controlled" by policies, both internal corporate policies and external policy directed by the state. In the management aspect, these four stages are a cyclical model that puts CSR activities in a process that is continuously being refined. The implementation guideline can then be used as a reference in implementing CSR.

In order to create an appropriate assessment of CSR, corporations must pay attention to the weight of each indicator, adjusted for the timeline of the CSR program and type of community they are facing. Technically, the corporation can use the weights of indicators as a reference in the implementation of CSR. Another important thing is that the corporation will obtain a consistent score and vice versa, because the value of CSR can decline with length of the timeline of the CSR program.

The guideline for the implementation and assessment of CSR is the result of a trial that still needs to be further developed in practice at the corporate level. Further development, substantially and contextually (based on the locality), is required to produce a more valid and reliable guideline to be used by mining, oil and gas corporations. For the practice of CSR in other countries, the guideline may need a series of refinements adapted to the context of each society. Ongoing academic efforts through applied research similar to this research are needed in order to produce optimal CSR performance. For that matter, an agenda for further research that needs to be done is to test and sharpen the guidelines and assessment in the context of different countries.

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