

# **STAKEHOLDERS ENGAGEMENT: CAPITAL TO GAIN SOCIAL LICENSE TO OPERATE IN MINING INDUSTRY**

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A social license to operate (SLO) is very important for the mining industry. Without social license from the community around the mine, mining operations cannot run smoothly. To achieve this, community involvement in the preparation of social programs is an important step so that the programs that are rolled out are in accordance with the needs of the community and receive support in its implementation. This research will find out how the mining industry builds relationships with its stakeholders?; How is the involvement of stakeholders in the preparation of corporate social programs?; and what is the impact of community involvement in the preparation of social programs on mining operations? This study uses a qualitative approach with ethnographic research method. The research was conducted at PT Kaltim Prima Coal (KPC), a coal mine located in Sangatta, East Kalimantan. Primary data is taken based on the results of in-depth interviews with stakeholders as informants, while secondary data is obtained from sustainability reports and other documents at KPC. The results of the research show that KPC places good relations with stakeholders as an important part of good mining practice. This can be seen in various existing policies and is manifested in the involvement of stakeholders in the implementation of corporate social programs. Stakeholders have communication channels with corporations regarding the required social programs, either through the proposals they submit or discussions held directly by the corporations. Furthermore, the social program is prepared based on the local government's work plan, so that the program promoted by the company is in line with the program launched by the local government. Various positive opinions emerged from the public, both submitted directly to corporation and reported in local media. Community involvement in the preparation of social program has an impact on a harmonious relationship between KPC and the community around the mine. It is evidenced by the absence of community disturbances which resulted in the termination of the company's operations.

**Key words: Social program, SLO, stakeholders, mining industry**

## **INTRODUCTION**

Mining is an industry that is very vulnerable to social problems. In particular, this industry is often faced with the issue of the impact of mining on the lives of communities around the mine as well as environmental issues. Various studies were carried out by scholars related to the impact

of mining on the surrounding social problems.

Apriyanto and Harini (2012) in their research entitled "The impact of coal mining activities on the socio-economic conditions of the community in the village of Loa Ipuh Darat, Tenggara, Kutai Kartanegara" said mining has an impact on the socio-economic conditions of the community

which trigger migration, conflict, strained kinship relations, and the emergence of prostitution. While Listiyani (2017) in her research "The impact of mining on the environment in South Kalimantan and its implications for the rights of citizens" emphasized that mining has a negative impact on the environment, such as decreased land productivity, increased soil density, erosion, and sedimentation, soil movement or landslides, disruption of flora and fauna, disruption of public health and impact on microclimate changes.

As an issue-prone industry, mining industry operations really need the support of the surrounding community so that its operational process runs smoothly. Community relations with mining and community attitudes towards the presence of mines are shaped by complex interactions between mining companies and surrounding communities and government efforts in sustainable development. Therefore, a number of studies that previous researchers have carried out have focused on mining issues and social permits. Based on the results of these studies, a number of researchers recommend a specific approach to sustainable mining. For example, Owen and Kemp (2013) recommend setting a collaborative development plan for an industry with a focus on stakeholder engagement, while Dare et al. (2014) concluded that community involvement has an influence on the achievement of social license.

The issue of social licenses is closely related to the concept of stakeholders. The classical definition states that a stakeholder is 'any group or individual who can influence or be affected by the achievement of the goals of the organization' (Freeman 1984: 46). A broader definition is put forward by Gray, Owen, and Adams (1996, p. 45) which states that a stakeholder is 'any group or individual who can be influenced by or can influence himself, the activities of the organization. Friedman and Miles (2006, p.13) state that local communities are a form of stakeholder.

In mining practice, the presence of local communities directly affects the company's operations. Their existence is closely related to the issue of social permits, which are an important capital for smooth mining operations. A social permit is not a formal contract between a corporation and the surrounding community. SLO is an informal social contract. Even though it is informal, SLO is the main key for mining, because this permit is the legality of the community in supporting mining operations. In general, SLO will avoid potentially costly conflicts and exposure to business risks.

For the mining industry, a SLO can be said to exist when a mining project is seen as having the broad, ongoing approval and acceptance of society to conduct its activities (Prno, 2013).

Meanwhile, Kamnitsas (2020, p. 2) explains that SLO is intended to bridge the gap among the views of the most important stakeholders involved in mining activities and in particular to take into account the views of the general public. Thomson and Joyce (in Ziessler et al., 2013) explained that in many countries the legal, government-granted right to explore or mine doesn't guarantee universal approval of a project and that other ways of gaining social acceptance for the mining activity must be found. According to Thomson and Joyce, the SLO stands for gaining legitimacy, credibility, and eventually trust by the local community, resulting in approval and a broad acceptance of society to conduct its activities.

The success of corporations in obtaining SLO contributes to the creation of corporate sustainability. To achieve this, the mining company must be able to create communication patterns that balance three interests, ecological, sociological, and corporate business. Ferguson (in Ndlela, 2019, p. 25) stated, “Living in an information age requires organizations to constantly communicate their activities and intentions to the different stakeholder constituencies. Moreover, the volatility of the environment of many organizations necessitates the presence of a strong communication component.”

Obtaining a social license is an important indication that the mining industry is conducting stakeholder management properly. R. Edward Freeman & Phillips (in Ndlela, 2019, p. 17) mentions the central idea in stakeholder theory is that “an organization's success depends on how well it manages relationships with key groups such as customers, employees, suppliers, communities, financiers, and others. -other things that can affect the realization of its objectives. Although stakeholders consist of many groups, the stakeholder context in this study only focuses on local communities, which directly affect mining operations. This research will find out how the mining industry builds relationships with its stakeholders?; How is the involvement of stakeholders in the preparation of corporate social programs?; and what is the impact of community involvement in the preparation of social programs on mining operations?

## **RESEARCH METHOD**

This research uses a qualitative approach. According to Cresswell and Poth (2018, p.45), “We conduct qualitative research because a problem or issue needs to be explored... These are all good reasons to explore a problem rather than to use predetermined information from the literature or rely on results from other research studies.” The method used in this research is ethnography.

According to Wolcott (in Creswell and Poth, 2018, p. 91) ethnographies focus on developing a complex, complete description of the culture of group-the entire culture-sharing group a subset of group. The culture-sharing group must have been intact and interacting for long enough to develop social behaviors of an identifiable group that can be studied. The key to ethnographic research is the focus on the discernible working patterns, not the study of culture.

This research was conducted at PT Kaltim Prima Coal (KPC), a coal mining company located in Sangatta, East Kutai Region, East Kalimantan. Primary data is taken based on the results of in-depth interviews with stakeholders as informants, while secondary data is obtained from sustainability reports and other documents at KPC. The informants consist of people living around the KPC mine which represent various components, such as small and medium entrepreneurs, farmers, community leaders, teachers, NGO activists, and also the government. They are individuals who have direct experience with the research subject. According to Streubert and Carpenter (2011, p. 28), informants are "individuals who are selected to participate in qualitative research based on their first-hand experience with a culture, social process, or a phenomenon of interest".

Data analysis was carried out in three stages, data reduction, data presentation, and conclusion. The data in this study are presented in the form of narrative text. Miles et al. (2014, p. 13) said "the most frequent form of display data for qualitative research data in the past has been narrative text". In this section, all interview results are summarized and written in sentence form so that the essence of the interview results obtained is easy to be understood.

## **RESULT AND DISCUSSION**

### **Stakeholder Engagement as the Basis for KPC's Social Performance**

PT Kaltim Prima Coal (KPC) is a coal mining company based in Sangatta, East Kalimantan, Indonesia. KPC is one of the largest open-pit mining operators in the world with a total coal mining concession area of 84,938 ha in Sangatta, Bengalon, and Rantau Pulung, East Kalimantan, Indonesia (KPC, 2021). In carrying out its social performance, KPC is based on the motto "more than mining". KPC does not only focus on mining and seeks profit from its mining operation but also cares about the welfare of the surrounding community.

In carrying out its social programs, KPC is committed to always involving its stakeholders. This commitment is also a manifestation of the company's obedience to government regulations that view stakeholder involvement as a benchmark for the success of corporate performance. This

is stated in the Regulation of the Minister of Environment and Forestry of the Republic of Indonesia No. 1 of 2021 regarding the company's performance rating program in environmental management. In the regulation, it is stated that one of the assessment criteria is the engagement of stakeholders in carrying out environmental management performance. Corporations are required to have a stakeholder engagement document, which includes the scope of actors and regions, the approach used, to the results of the involvement of the stakeholders.

Referring to these rules, KPC specifically creates a community development policy (KPC, 2019) which is the umbrella rule for implementing social programs. It is hoped that the policy will become the basis for performance so that the program that is rolled out is in accordance with the expectations of the community and is right on target. Mapping the priority scale of social program beneficiaries is divided into four priority scales. The first priority covers four sub-districts, namely North Sangatta, South Sangatta, Bengalon, and Rantau Pulung. Wawan Setiawan, GM External Affairs and Sustainable Development Division explained:

*This sub-district is the area closest to the KPC mining area which is directly affected by mining operations. Therefore, KPC pays full attention and care to the people in the area (interview, October 13, 2022).*

Furthermore, the second priority is the Regency in East Kutai, the third is the Province of East Kalimantan, and the fourth is on a national scale covering Jakarta and areas outside East Kalimantan.

In addition to regional mapping, KPC also sets program priorities which are described in seven program areas, namely improving public health and sanitation, developing education and training, developing agribusiness, developing small/medium enterprises and entrepreneurship capacity, improving community infrastructure, preserving nature and culture, strengthening community institutional capacity. To facilitate the implementation of community programs, KPC does not work alone. Stakeholder engagement is an important step taken by this company. In other words, the community is a corporate partner in developing and implementing community programs. Faizal, Superintendent of Local and Business Development said:

*When KPC initiates the program, we will discuss with various components of the community to find the right way when the program is implemented. In addition, several community programs were also launched by KPC based on suggestions or expectations from the community. So not all programs are top-down, from KPC to the community (interview, October 14, 2022).*

The explanation shows the direct involvement of stakeholders in social program implementation. It's not just a matter of creating programs that link and match the needs of the community, but KPC also takes another step to build good relations with the community. KPC believes that community development will run well if it is accompanied by good community relations. Regarding this, Nurrahmat Hendayana, a Community Relations officer said:

*We maintain good relations with community leaders, including religious and traditional leaders, government agencies, as well as community organizations. Our meetings are scheduled regularly, not only when KPC has problems. We also open the door of communication by submitting proposals related to various activities. In this way, we hope that they feel cared for, so that they can become KPC's partners in solving problems that arise (interview, October 14, 2022).*

Community involvement in planning and implementing community programs are also carried out by KPC in Bengalon area, which in fact is a priority area for community program development policies, considering that some of KPC's mining enters the area. Syahrudin, the Manager of Community Relations and Development Bengalon explained;

*The form of KPC's community program in the Bengalon area follows the bottom up model. We discuss with officials from 11 villages in the Bengalon area relating to various village development programs that they have planned. After a mutual agreement is reached, KPC will assist with funding and continue to monitor and assist the implementation of the program. KPC realizes that the involvement of the Bengalon community is an important factor for the smooth operation of KPC, considering that some of KPC's mining areas are in this sub-district.*

The various explanations above illustrate that stakeholders engagement is KPC's main concern in carrying out corporate performance. It is even considered an important part of good mining practice, a practice that sees social issues as an important part of mining operations.

### **Stakeholder Engagement and Social Program Implementation**

Stakeholder involvement as part of KPC's performance is closely related to the smooth implementation of social programs. KPC coordinates and communicates on an ongoing basis with stakeholders so that the programs rolled out are in accordance with their needs. For several programs whose implementation requires community involvement, KPC formulates together with relevant stakeholders. For example, programs in health, agribusiness, and Micro, Small, and Medium Enterprise Development. In addition, social programs are often based on community requests and expectations which are presented in the form of proposals. On the other hand, some

programs are top-down, such as community education scholarships whose implementation is handled directly by KPC, and the community could receive benefits from the program.

Community involvement in the KPC program is also manifested in the form of sustainable partnerships, a form of mutually supportive and beneficial partnership to achieve sustainability. To achieve this, the company held an Assisted Local Supplier Program which is specifically managed by the Local Business Development (LBD) division under the Supply Chain Division and the External Affairs and Sustainable Development Division. This initiative is an implementation of KPC's corporate responsibility in promoting the growth and welfare of local entrepreneurs and the community. In 2021, KPC assisted 21 local suppliers with a total purchase of USD 1.33 million (2021, p. 206).

Although it has involved the community in various programs, KPC still opens the channel for communication in the form of a community feedback system. This program is intended to open up opportunities for people who wish to submit complaints related to mining operations. In resolving various complaints, the company conducts intensive communication with community and government leaders at the village, sub-district, and district levels.

Various stakeholder involvement efforts are recognized by the community around the mine as a good breakthrough from KPC. Hasdiyah, Head of North Sangatta Sub-district, a sub-district that is in direct contact with KPC operations said:

*KPC's social programs really help the community and the government in developing the region. In carrying out these social programs, KPC always prioritizes coordination and communication with the community. The community is always involved because, in every assistance and program that is rolled out, the community is expected to contribute even though it is only in the form of ideas and manpower for implementation in the field. (interview, 15 October 2022).*

A similar confession was also conveyed by a small and medium business actor named Nafisatul Salwa. According to him, KPC always invites community deliberations in program preparation. On the other hand, the community contributes in the form of ideas and suggestions so that the program runs according to the community's needs (interview, 13 October 2022). Meanwhile, Edy Endang, a seed farmer, saw that KPC's relationship with the community was going very well. KPC's social programs have proven to be prosperous for many parties in East Kutai. As a supplier of plant seeds for reclamation, he feels that he is not only given a job but there is always

communication and learning about performance in the nursery sector (interview, 16 October 2022).

*Meanwhile, Rubito, Principal of Senior High School of Shout Sangatta District said: KPC routinely involves the community in the preparation of community programs to explore and discuss community needs. This is done through meetings or deliberation with parties who will be directly involved in the program. In addition, KPC is a company that cares about the development of the social sector, especially related to education (interview, October 16, 2022).*

The various comments from the community above are not much different from the results of the community satisfaction survey on the community development program conducted by Corporate Forum for CSR Development (CFCiD) in 2018. The results of the survey stated that the level of community satisfaction with KPC's community programs reached 78.78% (2021, p. 178), as illustrated in the survey results below:

Indikator Pertanyaan		KN	KP	KN x KP	IKM
Kejelasan Prosedur	I1	3,97	4,51	17,939	79,49
Perencanaan Partisipatif	I2	3,97	4,49	17,807	79,32
Kegiatan berbasis Kebutuhan	I3	4,42	4,71	20,813	88,37
Partisipasi Komunitas di Implementasi dan Monev	I4	3,87	4,30	16,626	77,39
Tingkat Keswadayaan komunitas	I5	3,85	4,34	16,730	77,08
Pengetahuan dan keterampilan Fasilitator	I6	3,84	4,43	16,988	76,75
Fasilitator Engagement	I7	3,85	4,47	17,208	76,92
Peningkatan modal sosial	I8	4,18	4,52	18,902	83,69
Peningkatan pengetahuan atau keterampilan beneficiaries	I9	4,00	4,42	17,660	79,93
Keberdayaan beneficiaries	I10	4,00	4,46	17,852	80,07
Keberdayaan masyarakat desa	I11	3,83	4,38	16,761	76,51
Peningkatan kesejahteraan secara luas	I12	3,91	4,39	17,171	78,17
Keberlanjutan	I13	3,24	4,06	13,155	64,81
Benefit kepada KPC	I14	4,13	4,28	17,691	82,58
	<b>TOTAL</b>		<b>61,77</b>	<b>243,30</b>	<b>78,78</b>

Tabel 1. Community Satisfaction Index

In the survey results above, it is known that the indicators of needs-based activities achieve 88.37 which means very satisfying. This shows that community involvement in determining community programs is quite significant.

### Stakeholder Engagement and Contribution to Social License

Community involvement in the planning and implementation of KPC's social programs contributes to the emergence of positive opinions toward corporations. This is not only seen from

various statements of informants and survey results conducted by KPC. This positive opinion can also be seen in the many positive news about KPC.

As shown in the research entitled *Local Media Engagement: Communication Strategy to Gain Social License to Operate in Mining Industry* (Mahmudah, 2021) bahwa based on KPC's media monitoring data from January to December 2019, the number of KPC news reports spread across 10 local media reached 600 news, with a composition of 577 with a positive tone, 3 with a negative tone, and 20 with a neutral tone. Meanwhile, during 2020 the number of news stories reached 701, with a composition of 675 positive, 11 negatives, and 15 neutral news. Meanwhile, in 2021, data was taken from January to August, totaling 305 news items with a composition of 288 positive, 14 negative, and 3 neutral tone. One of the positive recognition of the community in media was conveyed by Wimpianus, a student who received a KPC scholarship from Mulawarman University. "I saw for myself that the presence of KPC in East Kutai had a tremendous impact, both in terms of infrastructure, education, and environmental management, as well as assistance for houses of worship (Pro Kutim, 2021).

Indirectly, these various opinions indicate the existence of a social permit from the local community to KPC. The social license contributes very significantly to the smooth operation of the company. This is evidenced by the absence of interference from the local community which has an impact on the termination of the company's operations.

## **CONCLUSION**

Stakeholder engagement is the main basis for KPC's performance. This commitment has been proven by this company in various forms, such as the formulation of community development policies which are the umbrella rules for implementing social programs. Community involvement is carried out through various mechanisms, such as coordination and discussions related to the program to be rolled out and the participation of the community as partners who are directly involved in program implementation.

KPC coordinates and communicates on an ongoing basis with stakeholders so that the programs rolled out are in accordance with their needs. Several programs whose implementation requires community involvement, KPC formulates together with relevant stakeholders. In addition, social programs are also often based on requests and expectations of the community

which are submitted in the form of proposals. On the other hand, some programs are top-down, especially those whose implementation is handled directly by KPC and the community is only the beneficiary of the program.

Community involvement in KPC's social planning and programs contributes to the implementation of positive opinions towards the corporation. Indirectly, these various opinions are generally social permits from the local community to KPC. The social license contributes very significantly to the company's operations. This is evidenced by the absence of interference from the local community that has an impact on the company's operations.

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