

Does the Implementation of Corporate Social Responsibilities Have a Positive Impact on the Company's Business Sustainability?

Case study of PT Unilever Indonesia, Tbk

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ABSTRACT

PT Unilever Indonesia, Tbk (Unilever) is a consumer goods company that has a high commitment to implementing the principles of Sustainable Development Goals (SDGs) throughout the company's value chain. Unilever has developed a Unilever Sustaining Living Plan (USLP) since 2010, with objectives: 1) improving health and well-being; 2) reduce the footprint of using Unilever's products in the environment; 3) improve people's standard of living. The USLP is the company's blueprint for achieving the company's vision to grow the business, whilst decoupling the environmental footprint from the company's growth and increasing the company's positive social impact. The purpose of this study was to analyze the implementation of SDGs in Unilever's business strategy that encourages business growth. This paper using comparative analysis using three methods: 1) literature review on CSR impact on the company in Indonesia; 2) financial performance analysis using financial ratio and Altman Z-Score conducted on Unilever's financial performance 2016-2020; 3) qualitative analysis on consumers. The result found in the literature review was that CSR has a good impact on the company performance while the financial performance analysis showed that the company performance tends to decrease in the last 5 years. Qualitative analysis showed that consumers know the company and the products, but have less awareness about the company's CSR activities and consumers support the eco-friendly products.

Keywords: Consumer, CSR, Financial Performance, Literature Review, Sustainability.

1. INTRODUCTION

Unilever Indonesia or at present known by the full company name PT Unilever Indonesia, Tbk (hereinafter abbreviated as Unilever) established on December 5, 1933. Unilever has grown to become one of the leading Fast Moving Consumer Goods (FMCG) companies in Indonesia. Unilever has accompanied the Indonesian people through products from various categories mostly for daily life, such as Pepsodent, Lux, Lifebuoy, Dove, Sunsilk, Clear, Rexona, Vaseline, Rinso, Molto, Sunlight, Wall's, Royco, Bango, and many more.

In 2020, Unilever Indonesia grew positive ahead of the market which was negative. The positive growth due to the brand strength and the trust consumers place, the success in maintaining business continuity, distribution network, and the company strong and agile (Unilever 2020). Amid the Covid-19 pandemic, the company was able to achieve net sales of Rp43 trillion, or grew 0.1% year-on-year compared to 2019 [1]. The company's profit fell from Rp11,250 trillion in 2019 to Rp10,544 trillion in 2020 [1].

Unilever integrates sustainability as a corporate strategy to growth. The company has a high commitment

to implementing the principles of Sustainable Development Goals (SDGs) throughout the company's value chain. The commitment has developed through Unilever Sustaining Living Plan (USLP) since 2010. The objectives of the USLP include: 1) improving health and well-being; 2) reduce the footprint of using Unilever's products in the environment; 3) improve people's standard of living.

Unilever also integrates sustainability into product brands and innovation to help drive business growth through working with customers and suppliers, engaging employees, and forging new partnerships. Unilever has developed a simple four-point framework to help capture the ways in which sustainability contributes to company business success: 1) more growth; 2) lower cost; 3) less risk; 4) more trust [1].



Figure 1 Unilever Indonesia business model

The effort of Unilever in Corporate Social Responsibility (CSR) is recognized by many institutions. In 2016, Unilever awarded The Best Corporate Social Responsibility from Finance Asia Asia's Best Companies Poll 2016, also Overall Winner Award Sustainable Business Awards Indonesia 2016. The awards and recognition continued in the following years. The appreciation of Unilever's CSR activities is not followed by the performance of Unilever's share in the Indonesia Stock Exchange. RTI Business stated that in 2021 Unilever's shares are down 30,95% year to date [2]. Secutitas Sekuritas argued that share is down because the investor is unlike consumer goods company [2]. Unilever's share price hit its lowest point in the last 5 years at Rp4,220.00 per share on July 30, 2021, Figure 2.



Figure 2 Unilever's stock price (Code: UNVR) in Indonesia Stock Exchange in the last five years

1.1. Problem Statement

Unilever's stock price fluctuations illustrate investor confidence level in the company. Consumer trust in Unilever through CSR activities, the SDGs principles are not in line with investor confidence in the business built by Unilever. The problems addressed by this study were as follows:

- 1) Does CSR give good impact to company's financial performance?
- 2) Does the sustainability driving the business success in Unilever have a good impact on the company business sustainability?

1.2. Objectives

This study had the following objectives:

- 1) To find the correlation between Corporate Social Responsibility with corporate financial performance.
- 2) To analyse if the sustainability driving business success has a good impact to the company business sustainability.

1.3. Limitation

The limitations of this study were as follows:

- 1) The analysis was only conducted on PT Unilever Indonesia, Tbk, not the global Unilever.
- 2) The financial performance analysis was only conducted for the period 2016-2020.
- 3) This study did not consider the macroeconomic situation impacted the company performance.

1.4. Literature Review

1.4.1. Corporate Social Responsibility (CSR)

The concept of social responsibility proposes that a private corporation has responsibilities to society that extend beyond making a profit [3]. Friedman in [4] stated that there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as its stays within

the rules of the game, which is to say, engages in open and free competition without deception or fraud". However, Friedman's statement provides a useful foundation: Shareholders not only provide the necessary risk capital but are also the legal owners of public companies and thus have the most legitimate claim [4].

1.4.2. Financial Performance

The companies use their financial resources to create economic value and to satisfy financial obligations to external/internal parties such as employees, lenders, and shareholders. Financial resources consist of assets with a quantifiable market value (e.g., cash, payment claims, and financial investments and real estate) and assets with the power to generate and generate money (e.g., plant, machinery, and inventory) [5]. Financial performance also can be described using financial ratios. Financial ratio it is done to identify financial issues [3]. A review of key financial ratios can help us to assess a company's overall situation and pinpoint some problem areas. The most important financial ratios, which are: 1) liquidity ratio; 2) profitability ratio; 3) activity ratio; 4) leverage ratios.

2. MATERIALS AND METHODS

This study used three methods to determine whether CSR activities have a positive impact on the company. First, a literature review was conducted on previous studies related to the impact of CSR activities on the company's financial performance. Second, a quantitative analysis of Unilever's financial performance from 2016 to 2020 using financial ratio analysis and analysis of the company's potential financial distress using the Altman Z-Score formula. The second method employed secondary data from audited and published company financial statements for the 2016-2020 period. The third method was exploratory descriptive using primary data by conducting an online survey (using Google Form), with convenience sampling and snowball sampling methods.

3. RESULTS AND DISCUSSION

3.1. Literature Review on the Impact of CSR Activities in Indonesia

The literature review was conducted on several studies that have been conducted in Indonesia related to the impact of implementing CSR activities on company performance, and Unilever's financial performance. The summary of the study of the studies that have been carried out is as in Table 1.

Previous studies have stated that CSR activities carried out by Unilever and other companies listed on the Indonesia Stock Exchange have a positive impact on the

company's financial performance. The company's performance based on [6] in the 2015-2019 period provides a promising performance for investors. Even though the liquidity ratio in that period was below 1, other financial ratios such as profitability ratio, solvency ratio, and leverage ratio still showed good company performance. Based on [7], although the CSR implementation index in Indonesia is still lower than the global CSR implementation standard, in general it has a positive impact on financial performance, especially return on assets (ROA), and return on equity (ROE). CSR activities not only have a positive impact on the company but also have a positive impact on the community. Based on the literature review, CSR activities have a positive impact on the company's financial performance, and other non-financial positive impacts such as the impact on communities and workers.

3.2. Financial Performance

Unilever's financial performance analysis was carried out in the 2016-2020 period. The financial statement indicators can be seen in Table 2. Based on the summary of the financial statement, the net income of Unilever Indonesia decreased from 2018. This is due to the drastic increase of 48.12% in operating expenses over the last 3 years. The net income has decreased 24.59% from 2018 while the total assets increased slightly about 1.02%.

In terms of total equity, the company's equity decreased drastically by about 33.13% from 2018. In contrast, the total liabilities of the company increased about 20.51% over the last 3 years. This indicates that the company started to shift its financial leverage from equity to liabilities. It is not good for the company to have a large proportion over its equity. In the perspective of investors, the dividend was fluctuated from 2018 to 2020. The dividend paid increased 31.66% in 2019 and decreased 19.48% in 2020. The reduction of dividend might be used to confront the pandemic.

In conclusion, the key highlights of the summary of the financial statement are the drastic increase in operating expenses and liabilities which lead to lower profit margin and high debt ratio. Further the financial statement analysed using financial ratio to evaluate the financial performance of Unilever in period 2016-2020, in Table 3. The financial ratio analysis is described as below:

Table 1. Literature review on the impacts of CSR activities in Indonesia

No	Author	Year	Title	Journal	Research Objective	Result
1	Wiwiek Mardawiyah Daryanto, Riasky Widar Dewanti, Reyner Farras	2020	<i>Financial ratio analysis of PT Unilever Indonesia Tbk to measure financial performance</i>	International Journal of Business Economics and Law	This research aims to define and measure the financial performance of PT Unilever Indonesia Tbk for the 2015-2019 period by using the ratio analysis method to help indicate the extent of the company's success in achieving its goals.	Overall, the results of our research using the financial ratio analysis can be concluded that the company performance of PT Unilever Indonesia Tbk is in good condition from 2015 to 2019, so it is suitable for investors to invest their capital.
2	Mayang Mahrani, Noorlailie Soewarno	2018	<i>The effect of good corporate governance mechanism and corporate social responsibility on financial performance with earnings management as mediating variable</i>	Asian Journal of Accounting Research	The purpose of this paper is to determine the direct influence of the mechanism of good corporate governance (GCG) and corporate social responsibility (CSR) on financial performance as well as through earnings management as a mediating variable.	The results show that the mechanism of GCG and CSR has a positive effect on financial performance as well as the CSR on financial performance.
3	Kartika Dewi Sri Susilowati	2018	<i>The role of Social Capital in The Implementation of Corporate Social Responsibilities (CSR): Lesson Learned From PT Unilever Indonesia Tbk</i>	Journal of Innovation in Business and Economics	This paper focuses strongly on the role of social capital in multi-stakeholders partnership model which was developed by PT. Unilever Indonesia Tbk in the implementation of corporate social responsibility in Bantul, Yogyakarta	The company is able to improve the quality of life of the farmers. and fulfilled two different values: economics (business) value and social value
4	Taridi K. Ridho	2018	<i>The Development of CSR Implementation in Indonesia and its Impact on Company's Financial and Non-financial Performance</i>	International Conference on Islamic Finance, Economics and Business	The purpose of this study is to describe the development of corporate social responsibility (CSR) implementation in Indonesian listed companies	Result indicated that beside there was an improvement, the level of CSR implementation in top 200 listed companies in Indonesia during the period of 2014 and 2015 was generally still low compared to global CSR implementation standard. The second finding was that the level of CSR implementation had positive and significant influence on companies' financial performance, both measured by ROE and ROA, but not companies' non-financial performance, both from the customer and employees perspective
5	Yosefa Sayekti	2015	<i>Strategic Corporate Social Responsibility (CSR), Company Financial Performance, and Earning Response Coefficient: Empirical Evidence on Indonesian Listed Companies</i>	Procedia Social and Behavioral Sciences	The purpose of this study are to examine the effect of strategies CSR and non-strategic CSR on financial performance, and to examine the effect of strategic CSR and non-strategic CSR on earnings response coefficient (ERC).	The result of this study show that strategies CSR and non-strategic CSR positively and negatively affect financial performance respectively. The level of strategic CSR positively affect earnings response coefficient, while the non-strategic CSR does not have an effect on the ERC.

3.2.1. Liquidity Ratio

Liquidity ratios measure a company's ability to pay short-term debt obligations and its margin of safety through the calculation of metrics. It includes the current ratio and quick ratio.

Current ratio is used to measure a company's ability to pay short-term obligations or those due within one year. Unilever Indonesia Current ratio has decreased from 2018 to 2020 with a ratio of below 1.0. A current

ratio of less than 1 suggests that the firm will face financial issues and may have trouble covering its existing liabilities based on its current assets. In order to stay liquid, its sales revenue must still rise.

The quick ratio measures a company's ability to meet its short-term obligations with its most liquid assets which excludes inventory. When inventories and prepaid expenditures are excluded from current assets, the ratio falls to 0.5 and less. In 2019, the firm has \$0.48 in its monetary assets to pay \$1 of current liability. The low quick ratio value of Unilever Indonesia in 2018-2020 is considered not acceptable. It means that the company cannot pay short-term liabilities with current assets without considering the value of inventory.

3.2.2. Efficiency Ratio

An efficiency ratio measures a company's ability to use its assets to generate income. The ratio is measured through the calculation of average collection period, total asset turnover, non-current asset turnover and inventory turnover ratio.

The total asset turnover ratio is the ratio of the number of the company's sales generated to the value of its reserves. The asset turnover ratio may also be used as a measure of the effectiveness with which a business deploys its assets to produce sales. For Unilever Indonesia, the total asset turnover ratio experienced a slight increase from 2018 to 2020. This means that every \$1 asset can produce \$2.09 of revenue in 2020. This ratio suggests that Unilever Indonesia has a reasonable efficiency in utilizing its assets. In another word, the company managed to generate \$3.67 of revenue from \$1 of non-current assets.

The inventory turnover is a useful measure of how well a company turns inventory into sales. The ratio calculation obtained will show how well management manages costs related to inventory. It can also be used to find out whether the supplies purchased are too much or too little. It was 17.67 times in 2019, a very sharp increase from 2018. It could be said that 2019 is a good year for Unilever Indonesia because it has experienced the best sales. For average collection period, the company has an average of 46 days to collect cash from its account receivable over the last 3 years.

3.2.3. Profitability Ratio

Profitability ratio is used to assess a business's ability to generate earnings relative to its revenue, operating costs, balance sheet assets, or shareholders' equity over time, using data from a specific point in time. It is measured through the calculation of operating income return on investment (OIROI), operating profit margin (OPM), net profit margin (NPM), return on assets (ROA), and return on equity (ROE).

Overall profitability ratios fall from 2018 to 2020 except ROE increased 12.77%. The OPM decreased about 25.40% while NPM decreased around 26.65% due to the rise in operating costs. The OIROI also decreased 24.09% and ROA decreased 25.36%. This showed that the company was facing the lack of sales to cover the operating and finance costs.

3.2.4. Leverage Ratio

Leverage ratio measures how much capital comes in the form of debt or assesses the ability of a company to meet its financial obligations. It is calculated based on the debt ratio, debt to equity ratio and interest coverage ratio.

The debt ratio of Unilever Indonesia has increased 19.29% over the last 3 years while the debt-to-equity ratio also increased 80.21% from 2018 to 2020. This indicates that the company might not have the ability to meet its obligation and it becomes riskier for the business. The interest coverage ratio also decreased 5% from 2018 which showed a lower ability of the company can pay interest on its outstanding debt.

The financial ratio show that the performance of the company tends to decrease in period 2016 – 2020. The analysis of the decline in the financial ratio can be continued by using the Altman Z-Score calculation method to find out whether there is a possibility that the company will experience financial distress. Altman's Z-Score model is a numerical measurement that is used to predict the chances of a business going bankrupt in the next two years. The model was developed by American finance professor Edward Altman in 1968 as a measure of the financial stability of companies. The result of Altman Z-Score in Table 4.

Based on Altman's Z-score, Unilever Indonesia showed low financial performance although it is still in the green zone which is more than 2.6. However, the Z-score decreased drastically around 40% from 2018 with 4.6 to 2020 with 2.76. This scoring model indicates that the company had financial problems in which the company's debt increased significantly and net income decreased over the last 3 years.

Table 2. Resume of Unilever's financial statement, 2016-2020

Resume Financial Statement (IDR M)	2020	2019	2018	2017	2016	CAGR
Total Assets	20.534.632	20.649.371	20.326.869	18.906.413	16.745.695	1,02%
Account Receivable	5.413.654	5.447.751	5.103.406	4.854.825	3.809.854	6,08%
Inventory	2.463.104	2.429.234	2.658.073	2.393.540	2.318.130	-7,33%
Current Assets	8.828.360	8.530.334	8.257.910	7.941.635	6.588.109	6,91%
Non Current Assets	11.706.272	12.119.037	12.068.959	10.964.778	10.157.586	-3,01%
Total Liabilities	15.597.264	15.367.509	12.943.202	13.733.025	12.041.437	20,51%
Current Liabilities	13.357.536	13.065.308	11.273.822	12.532.304	10.878.074	18,48%
Long term liabilities	2.239.728	2.302.201	1.669.380	1.200.721	1.163.363	34,17%
Sales	42.972.474	42.922.563	41.802.073	41.204.510	40.053.732	2,80%
COGS	20.515.484	20.893.870	20.697.246	19.984.776	19.594.636	-0,88%
Gross Profit	22.456.990	22.028.693	21.104.827	21.219.734	20.459.096	6,41%
Operating Expenses	13.005.978	11.907.787	8.780.616	11.723.970	11.751.435	48,12%
Operating Income	9.451.012	10.120.906	12.324.211	9.495.764	8.707.661	-23,31%
Net Income	7.056.606	7.090.157	9.357.937	7.107.230	5.957.507	-24,59%
Retained Earning	4.765.068	5.109.562	7.211.367	5.001.088	4.531.958	-33,92%
Paid Dividen	7.401.100	9.191.962	6.981.450	6.638.100	6.096.370	6,01%
Beban Keuangan (Financial Expenses)	2.394.406	3.030.749	2.966.274	2.388.534	2.750.154	-19,28%
Total Ekuitas (Total Equity)	4.937.368	5.281.862	7.383.667	5.173.388	4.704.258	-33,13%

Table 3. Unilever's financial ratios, 2016-2020

RATIO	2020	2019	2018	2017	2016	CAGR
A. Liquidity Ratio						
- Current Ratio (X)	0,66	0,65	0,73	0,63	0,61	-9,77%
- Quick Ratio (X)	0,48	0,47	0,50	0,44	0,39	-4,06%
B. Efficiency Ratio						
- Average Collection Period (Days)	45,98	46,33	44,56	43,01	34,72	3,19%
- Total Asset Turn Over (X)	2,09	2,08	2,06	2,18	2,39	1,76%
- Non Current Asset Turn Over (X)	3,67	3,54	3,46	3,76	3,94	5,98%
- Inventory Turnover Ratio	17,45	17,67	15,73	17,21	17,28	10,94%
C. Profitability Ratio						
- Operating Income Return On Investment (%)	46,02%	49,01%	60,63%	50,23%	52,00%	-24,09%
- Operating Profit Margin (%)	21,99%	23,58%	29,48%	23,05%	21,74%	-25,40%
- Net Profit Margin (%)	16,42%	16,52%	22,39%	17,25%	14,87%	-26,65%
- Return On Assets (%)	34,36%	34,34%	46,04%	37,59%	35,58%	-25,36%
- Return On Equity (%)	142,92%	134,24%	126,74%	137,38%	126,64%	12,77%
D. Leverage Ratio						
- Debt Ratio (X)	0,76	0,74	0,64	0,73	0,72	19,29%
- Debt to Equity/DER (x)	3,16	2,91	1,75	2,65	2,56	80,21%

Table 4. Unilever's Altman z-Score

Altman Z-Score	2020	2019	2018	2017	2016	CAGR
- X1 Score	-1,45	-1,44	-0,97	-1,59	-1,68	-48,66%
- X2 Score	0,76	0,81	1,16	0,86	0,88	-34,59%
- X3 Score	3,45	3,66	4,42	4,75	5,37	-21,88%
- X4 Score	0,33	0,36	0,60	0,40	0,41	-44,51%
Total Z-Score	2,76	3,03	4,60	4,02	4,57	-39,98%

3.3. Consumer Survey

To see the implementation of the SDGs carried out by Unilever Companies, we conducted a quick survey with the title "Product Survey" from July 28 to July 30, 2021. The survey method we conducted was online using Google Forms, using convenience sampling and snowball sampling to filling out questionnaires. We use the sampling method by taking one of the Unilever Company's products, namely Lifebuoy soap. Then, as a comparison, we also include one product from the Danone Company, namely AQUA mineral water. These two products are our choice because the companies that produce these products have implemented the SDGs as a

form of their support for environmental sustainability. Therefore, they issue environmentally friendly products.

The survey was conducted in two languages, namely English and Indonesian. The goal is that some of the people we share this survey with are people who don't understand Indonesian. The survey was followed by 100 people with details of 83 peoples filling out the survey in Indonesian and 17 peoples filling out the survey in English. The personal information from the survey only asked about gender, age, current education, and income range per month.

Following are the results of the data for a survey on personal information:

- 1) Gender: Female 48% and male 52%
- 2) Age: Age range 12-25 years 46%, age 26-45 years 47%, and age 46-65 years 7%
- 3) Education: High school 4%, diploma 4%, bachelor 63%, master 18%, and doctor 11%

The survey results aim to reveal broadly about:

- 1) Introduction of respondents to AQUA and LIFEBOUY products and from which company they come from.
- 2) Respondents' awareness of the new program launched by the two companies. This aims to see how updated respondents are about the new program launched by the company regarding the two products they use every day. The program issued by the company is an implementation of the SDGs, in which the company issues environmentally friendly products.
- 3) Consideration of respondents when buying a product. This aims to find out whether respondents consider buying environmentally friendly products.
- 4) The respondent's consideration is whether to continue to buy products that are not environmentally friendly. It aims to determine the respondents' awareness of the environment.

The results of this survey show various opinions of respondents about environmentally friendly products. The summary of this survey shows that 82% consider buying environmentally friendly products and 18% do not consider buying environmentally friendly products. Then, as many as 54% of respondents will continue to buy products that are not environmentally friendly and 46% will not buy products that are not environmentally friendly.

4. CONCLUSION

In the same period in 2016-2020, Unilever's stock price performance on the Indonesia Stock Exchange moves in line with the performance of financial fundamentals for the period 2016-2020. Awards from various institutions, and public recognition of Unilever's CSR programs do not directly have a positive impact on Unilever's financial performance. In the financial statement, it can be seen that the decline in Unilever's financial performance is likely influenced by the business strategy carried out by management as reflected in the increase in total debt; the long-term debt component is not matched by an increase in the company's total assets. From the results of the Altman Z-Score calculation, it is found that there is a tendency for companies in the next 2 years to experience potential financial distress if there is no improvement in the increase in revenue and decrease in company debt. This condition may have caused investors to choose to sell their shares on the Indonesia Stock Exchange and caused Unilever's stock price to experience a downward trend.

The results of this financial ratio analysis are not in line with the results of the literature review where the literature review concludes that CSR activities have a positive impact on the financial performance of Unilever companies, communities and employees. With the survey results showing that although respondents strongly support environmentally friendly products and will buy products that care about the environment, most of them do not know about the CSR activities that have been carried out by the company. This can describe the CSR activities carried out, the awards obtained from CSR activities have not formed a pull-sales product for the company.

The exploration results of this paper can provide suggestions for Unilever to align CSR activities, sustainability living embedded to company strategies, supply chain sustainability with the company's core activities to improve financial performance through increasing revenue and maintaining financial ratios at an optimal level. Suggestions for further research on exploring the alignment of the relationship between CSR activities, 4P marketing mix strategies (product, price, place, promotion), value chain, on Unilever's business model canvas that can optimize company revenue and maintain optimal costs to support Unilever's financial performance so that it can maintain the continuity of the company. Unilever's business continuity is needed so that CSR activities that have an impact on social and environmental sustainability can be maintained.

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