

ABSTRACT

THE IMPLEMENTATION OF CREATING SHARED VALUE (CSV) AND ITS IMPACT ON COMPANY'S PERFORMANCE

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The objective of this research is to analyze the implementation of CSR toward company's performance. The CSR is represented by CSV (Creating Shared Value) and the company's performance is represented by financial performance, human resource, and corporate image. This study employs interview as the source of primary data and company's report and publications as the secondary data. The findings of the study reveals that CSR activities have impact toward the company's performance as shown by the three indicators, consisting of financial performance, corporate image, and human resource. From this study, it can also be concluded that the CSV activities undertaken by PT PKG a positive impact and significant enough to company performance. This is evidenced by the increasing ratio of a company's financial year, but it also PT PKG experienced an increase in sales of their products, it is because the PT PKG has a good image in the public perspective. And human resources owned by PT PKG have increased as more and more human resources really have the expertise as required by the company in carrying out its activities.

Keyword: CSR, CSV, and company's performance

I. Introduction

The globalization era on economy, particularly in industrial sector, has been grown rapidly. Significant growth in industrial sector occurs in both developed and developing countries. But, industrial growth has caused

environmental damage and declined social life quality around the industries. Company has a responsibility to provide social contribution towards their environment especially for the company which has damaged the environment. Conducting business is not only about generating profit for the company itself, but also providing benefit for the public. CSR is one of the company's ways for managing their business and realizing their responsibility to the shareholders.

Indonesia has regulated the CSR activities in Law No. 40 of 2007 on Limited Liability Companies. Article 74 paragraph (1) of Act No. 40 of 2007 mentions that "Company which operates in the field of natural resources is required to implement the environmental and social responsibility." By the existence of laws governing the implementation of CSR, the company is obliged to conduct CSR.

One of the ways for performing CSR is by Creating Shared Value (CSV). CSV is a business concept first introduced by Michael Porter and Mark Kramer in 2006 in the article of the Harvard Business Review. The central premise behind creating shared value is that the competitiveness of a company and the health of the communities around it are mutually dependent. Company can create shared value opportunities by preconceiving products and market, redefining productivity in the value chain, and enabling local cluster development. CSV is fundamentally different from the past CSR activities. CSV is a transition and expansion from the concept of CSR.

By performing CSR activities, the company will be able to increase the value of the company. Company's performance is usually represented by

profit accomplishment. In this study, the company's performance represented by three indicators, there are financial performance, human resource, and corporate image. The mainly purpose of this study is to analyze the implementation of CSV and its impact on company's performance.

II. Problem of The Study

This study focuses on the following problems:

1. How is the implementation of CSV as CSR program in PT. PKG?
2. How is the impact of the CSV on company's performance?

III. Literature Review

The Theory of Stakeholder

In the theory of stakeholder, entity not only operates for its own benefit but also must be able to give benefits for the stakeholders. The responsibility of company is to maximize profits not only for shareholders but also for the stakeholders. The stakeholders can be suppliers, customers, governments, local communities, investors, employees, political groups, and trade association. Stakeholders can control or have the ability to affect the use of economic sources by the company. Stakeholder theory aims to assist companies in increasing their value and reducing the losses that will arise.

Corporate Social Responsibility

CSR is a social action conducted by company and not merely an activity undertaken to meet the regulations. CSR is known since the emergence of a book entitled Social Responsibility for the Businessman in 1953, written by

Howard Rothmann Brown, the Father of CSR. Howard introduces the CSR as the answer of the business problem in a form of social responsibility.

There are several reasons as to why companies need to perform corporate social responsibility:

1. Expectations and needs of the community change
2. Limited natural resources
3. Better social environment
4. Fairness between responsibility and authority
5. Long-term benefits

The reasons above are the general reasons for performing CSR. However, there are specific reasons, for example the company wants to differentiate their products with other products so the company need to perform the CSR to build their brand image in the society.

A Chesloff (2010) mentions that the forms of social responsibility undertaken by the companies are follows:

1. Creating and developing the company's mission, especially in the executive level in the implementation of social responsibility.
2. Involving employees at all levels as the decision makers and leaders in achieving their goals and activities regarding with the corporate social responsibility.
3. Improving the ability of employees to contribute positively to their communities.
4. Provide opportunities for the employees to develop new skills.
5. Improving teamwork through volunteer programs.

Currently CSR is reported by using the Global Reporting Initiative (GRI) as the guidance. GRI was founded in New York in 1997 and it is currently based in Amsterdam. The purpose of the GRI is to formulate guideline for the company used as a basis and framework for reporting the economic, environmental and social business activities.

The contents of the guidelines are as reporting principles and specific content to guide the preparation of sustainability reports levels of the organization, how to assess the organization's balance and feasibility of its economic, environmental, and social performance, how to develop sustainability report which can be compared (comparability), sustainability performance assessment and benchmarking to comply with the codes, performance standards and voluntary initiative and as with an instrument to facilitate stakeholder agreement.

Company's Performance

Company performance is a certain measurement that is used to measure the success of a company in generating profits. Performance assessment is measured based on the operational effectiveness of the company or organization in one year. . This judgment can be seen through the company's financial statements.

Company performance appraisal is conducted for achieving the following purposes:

1. For the purposes of the business which aims to determine whether the business value of the business is greater than the value of the liquidity.

2. In terms of mergers and acquisitions, to determine the value of the company and the value of the equity of each company.
3. For getting a loan or determining the amount of additional capital.

Financial Performance

Financial performance is the ability to generate profits which is usually measured from the increase of the company's profitability and effectiveness in using its resources as reflected in financial ratios. The financial ratios are ROE, ROA, profit margin, etc. Return on equity (ROE) measures the rate of return on the ownership interest (shareholders' equity). It measures the firm's efficiency in generating profits from every unit of shareholders' equity (also known as net assets or assets minus liabilities). ROE shows how well a company uses investment funds to generate higher growth rates in earnings.

Return on assets (ROA) is a financial ratio used to measure company's efficiency in utilizing their asset for generating profit. By using ROA, the profit earned is calculated in each unit of currency of the assets of the company. And profit margins are used to identify the size of the operating profit in relation to sales for determining the efficiency of the company.

Corporate Image

Corporate image is the reputation owned by the company. Corporate image is very important for many companies, because if company has a good corporate image, investor will invest without any hesitation. Therefore, many companies conduct CSR to improve their corporate image so that they can attract more investors.

Human Resource

Human resource is a potential possessed by human as a social being. Within an organization or institution, human resources plays an important role. Human resources are needed to carry out business activities, so that it will give advantage to the company.

IV. Research Method

Research is a scientific activity that is essential for the development of science and for solving a problem. Research is used by the scientists as a research tool for revealing what is behind a certain phenomena and for finding out new useful knowledge will (Satori dan Komariah, 2009:1). This research uses a qualitative approach. Qualitative method is accepted in social science and business research.

A study focuses on a specific topic, so that it could examine the issue deeply. This study are focuses on The implementation of CSV as CSR program at PT. PKG and the impact of the implementation of CSV as CSR program on company's performance. The objects of this study are company and SMEs assisted by PT. PKG namely Meduran Garbage Bank in Gresik.

Researcher use primary data and secondary data, primary data obtained the result from of interviews with the informants. And secondary data is used the financial statements and sustainability reports of PT PKG in 2011-2012.

Data collections are a method of documentation, interview, research literature, and observation.

1. Documentation

Documentation is a method to gather information from related documents to resolve the problem the documents used as the data of this study include financial reports and sustainability report of the company as well as articles or literatures related to the company or research topic.

2. In- Depth Interview

Interview is carried out to gather information directly from the source. Interviews were conducted in this study were face to face interviews. In this study the researcher uses in-depth structured interview with the manager and farmers.

3. Literature Review

Literature review is method in which the researcher reviews and examines the relevant books or literature dealing with the specific topic being studied. Some books and journals are used as the literature in order to support the research findings.

4. Observation

Observation is conducted by the researcher to examine the direct object of the research without directly asking the informant. The researcher observes the conditions of PT. PKG especially the relationship between PT. PKG and SME, activity and behavior of the research object which attracts the attention of the researcher. This observation carried out almost every day because the researcher live around the company.

The instruments of the study are needed to assist the researcher in the process of collecting data in order to obtain systematic and effective data.

The instruments used in this study include:

1. Guidelines for interviews

They are invaluable tools in the form of a list of question to be asked directly to the informants. The interview questions were addressed to the manager of the studied cooperative for obtaining the following information:

- a. Cooperatives profile (name, date of its establishment, background of the cooperative establishment), the list of the questions are
- b. The form of cooperation between the cooperative and PT. PKG.
- c. The advantage gained by the cooperative in the partnership with PT. PKG.

The researcher also conducted interviews with farmers who use the products of PT. PKG. The questions deal with the following issues:

- a. The reason why farmers choose the product from PT. PKG
- b. Company image from the perspective of the farmers

2. Documentation guidelines

One form of the tools used for documenting information obtained during of the research is a notebook.

This study uses the perspective of Professor Porter and Kramer (2006) on building shared value in capitalism industrial. The industry not only gives a benefit to the shareholders but should give benefit to the environment and society.

Stages of data analysis in this study can be described as follows:

1. Identifying and investigating the CSV activities at PT. PKG by conducting interview with manager of Meduran Garbage Bank.
2. Analyzing the CSV activities of PT. PKG to serve as the guidelines for CSR.
3. Drawing conclusions based on the identification of PT. PKG's CSV activities that can be used to guide the establishment of CSR activities.

V. Findings and Discussion

Company Profile of PT Petrokimia Gresik

PT Petrokimia Gresik (PT. PKG) is one of fertilizer companies in Indonesia. PT. PKG initial establishment was begun by Presidential Decree No 260 of 1960. Surabaya Petrokimia Project was a National Development Plan I (1961 – 1969 period) priority project. Surabaya Petrokimia Project was officially inaugurated by the President of Republic of Indonesia on July 10th, 1972 that later was commemorated as PT. PKG anniversary. During its journey, the company experienced status of shifting. In 1971, according to Government Regulation No. 35 of 1971, PKG was changed into *Perum*. In 1974 referring to the Government Regulation No. 35 of 1974 and No. 14 of 1975, PKG became in the form of Persero. By referring to the Government Regulation No. 28 of 1997, PT. PKG became the member of PT Pupuk Sriwidjaja Holding Company. Now it becomes the member of PT Indonesia Fertilizer Holding Company (IFHC) based on the decree of the Ministry of

Law and Human Rights of Republic of Indonesia, number: AHU-17695.AH.01.02 Year 2012.

Vission and Mission

PT. PKG has the following mission:

- a. Supporting the provision of a national fertilizer to achieve food self-sufficiency program.
- b. Improving the results of operations for the smooth operations and business development company.
- c. Developing business potential to support national chemical industry and playing an active role in community development.

The vision is Being the manufacturer of fertilizers and other chemical products which highly competitive and the most popular consumer products.

CSV Analysis of PT Petrokimia Gresik

Creating Shared Value is a concept introduced by Michael Porter and Mark Kramer in 2006 in scientific articles of the Harvard Business Review. The application of CSV here deals with the cooperation between PT. PKG and Meduran Garbage Bank. This collaboration does not only improve the corporate image that will increase profits but also help the community around the plant to overcome the problems of waste and improve the local economic condition of the local people.

Interview Results with Meduran Garbage Bank Manager

Topic 1: The profile of cooperative

Researcher : How is the history of the SMEs?
Manager : Garbage Bank was established on December 18, 2011. The bank was established as an initiative of the bins to manage waste in their area. Prior to the bank many people's trashed

caused diseases such as dengue fever that's why people want to set up a garbage bank.

Researcher : What activities are done by the SME?

Manager : Daily activity of garbage bank is collecting garbage from some points in the bank such as Beton, Enggano, and GKA. Besides, the other activity is sending delegation to attend seminars related to the trash bins with all banks in Indonesia, in addition to helping areas that want to build their own garbage bank.

From the above conversation, it can be stated that Meduran garbage bank at first was only a group of housewife who are concerned with the piles of garbage in their area. According to the local residents before the garbage bank was built, almost every month some people got caught of dengue fever. It happens because the people did not have skills for processing the existing rubbish bins so that it made it possible to the breeding of dengue mosquito.

Topic 2: Cooperation between cooperative and PT Petrokimia Gresik

Researcher : When was the cooperation between SME and PT. PKG established?

Manager : Cooperation with PT. PKG began on December 18, 2011, and started by garbage cans donated to separate organic and non-organic garbage then PT. PKG gave place to the garbage bank for operations.

Researcher : What is the reason behind the establishment of the cooperation?

Manager : The reason behind this cooperation is the residents of Roomo village every month was attacked by dengue fever, because people do not know how to process garbage so the trash became the nest of dengue mosquito. Therefore, residents submitted a proposal to the PT. PKG to help them to solve the garbage problem. Next, PKG approved the proposal because the village in the ring 1 is that the area directly related to the PT. PKG. Thus, PT. PKG has a partnership program that can help people to tackle the garbage problem.

Researcher : How is the beginning of the cooperation between SMEs with PT. PKG?

Manager : Garbage Bank gave a proposal to the PT Petrokimia Gresik and then the PT Petrokimia Gresik provided a place to be used as garbage bank office. 8 months later, PT. PKG provided assistance in the form of Tossa motorbike to help the operational activities of the garbage bank itself. PT.

- PKG also provided bins for separate organic waste and non organic
- Researcher : What kind of help is provided by PT. PKG at the beginning of cooperation?
- Manager : At the beginning of the cooperation PT. PKG donated and provided motorcycle for transporting garbage from several places.
- Researcher : What kind of cooperation is done by the SMEs and PT. PKG?
- Manager : Cooperation started when PT. PKG has given place and vehicles that can be used for operational activities of the garbage bank. On the other hand, garbage bank helps PT. PKG in improving their corporate image. The cooperation that exists for this is quite profitable for both parties.

Based on CSV concept introduced by Porter (2006), a business must have a value added to the community. PT. PKG adopts this concept and always tries to run the business in order to provide value added to the community. Building a good business relationship between the company and the public will have a good impact on the company.

PT. PKG has value added to the community, especially community in Roomo village because PT. PKG has helped people to solve garbage issues in their area. PT. PKG have built a good relationship with the community. It makes the business activities of PT. PKG run smoothly because of the impact of the CSV activities that have been done. So, it can be concluded that CSV activities have positive impact on business activities of the company.

Topic 3: The advantage gained by the cooperative in partnerships with PT Petrokimia Gresik

- Researcher : What are the advantages of cooperation with PT. PKG?
- Manager : There are so many benefits from this cooperation. For PT. PKG can improve their corporate image because any activity undertaken by the garbage bank always carries the name of PT. PKG whereas, for locals, this cooperation is a very advantageous cooperation in various aspects such as

from an economic perspective. The presence of garbage banks helps people especially housewife to get a source of income.

Researcher : Is this cooperation also beneficial for the surrounding community?

Manager : Of course, this cooperation is useful for the community. This cooperation can help the community to reduce the causes of diseases, especially dengue fever. People can also increase revenue through garbage and community can gain knowledge on garbage management so that they can process garbage into something more useful and economically valuable items.

This cooperation is also very beneficial for the PT. PKG because PT.

PKG can create a good image from the perspective of the society and government. So, PT. PKG can help to improve their company's performance.

According to Porter (2006) CSR conducted by PT. PKG is classified as Socially Responsible Business Practice. The program has a positive impact on the company, the company has built mutually beneficial relationships with the stakeholders to minimize the conflicts that exist in a business relationship. By having the good relationship with the community it will create a good impact to the company as Professor Porter said, "Good for the community is also good for business."

Analysis on The Impact of CSV Activities On Company's Performance

Creating Shared Value (CSV) program will certainly have an impact on the performance of the company PT. PKG. Because the CSV will has a considerable positive impact to the company. Here is the impact of its CSV programs:

Financial Performance

Financial performance of the company is the most important thing for making decision. Because the financial performance can be used to measure

the company performance in generating profit. From the annual report the company's financial condition is quite good and stable because the increase of on financial ratio is not significant. In 2010, the net profit margin was at 6.51% while in 2011, it was 6.64% and 6.32% in 2012. Despite the decline of 0.22 %, it is considered as reasonable because the financial ratio is still above 1 % and the decrease is not significant. Based on the profit margin, the company can generate profit from products that have been sold. PT. PKG could control costs arising from their business activities, so that it can be said that the business activities of PT. PKG have been efficient.

As for the return on equity (ROE), the company experienced a steady increase over the year 2010 to 2012. It proves that the company's ability to generate profit increases every year. The company can generate profits from the invested funds. The arising ROE shows that company is increasing its ability to generate profit without requiring high amount of capital. Based on the financial highlights, it can be seen that the ROE ratio of PT. PKG has been increasing every year, meaning that PT. PKG has been successfully managing capital into profit. ROE which is more than 12-15% is considered as desirable. The ratio depends on many factors such as industry, economic environment like inflation, risks, etc. The higher the ROE is the better. However, the higher ROE can be the result of high financial leverage, but too high financial leverage is dangerous for company's solvency.

In addition, for return on assets (ROA), the decrease in 2012 is still acceptable because the profit of the company has increased during 2010 to 2011. So, it can still be said to be reasonable as compassionate ROA is

above 5%, and ROA which is above 5% is considered as good. So, the condition of the financial performance of PT. PKG during the year of 2010-2012 is good due to the insignificant decrease.

Corporate Image

From 2010 to 2012, company has a pretty good image in the eyes of the public and consumers. This evidence can be seen during the observation conducted to PT. PKG. PT. PKG has a wide range of product choices compared to other fertilizer company.

There is an interview between the researcher and the farmer, from this interview it can be concluded that the fertilizer product of PT. PKG remains as the best choice for the farmers. Here is the script of the interview:

Researcher : How long do farmers in here use product from PT Petrokimia Gresik?

Farmer : If you ask how long, hmmm... We can't remember the time for sure but we have already used this product since a long time ago.

Researcher : What are the reasons to use this product until now?

Farmer : There is a lot of reasons. Hmmm ... the reason why we use fertilizer until today because of petro fertilizers have a variety of fertilizer products that fit the needs of the plant. We currently prefer the use of petro's Phonska fertilizer because by using the fertilizer we can maximize the yields. In addition, we never have any difficulty to get a product from petro.

Researcher : How is PT. PKG image in the eyes of the farmers in this area?

Farmer : What kind of image? Product image or corporate image?

Researcher : Both of them.

Farmer : If we think of Petro products, they are good enough. Petro supplies a wide variety of fertilizer products. The products are suitable for our needs. We grow our plants so that the results are very satisfactory and the maximum distribution of fertilizer in our area good and it is very helpful for the farmer so that the local farmers here are not difficult to get the fertilizer. On the other hand the many activities in our opinion has been held by Petro in our area. As some time ago the petro came to our area and provided counseling on how to grow plants to obtain the maximum results. The extension is very useful for us because not all farmers know exactly how to maximize their yields.

But, after holding the extension, more farmers can maximize their yields.

So, from the interview above, farmers choose PT. PKG's product because PT. PKG has a good image and a wide variety of product. It makes PT. PKG's products are better than the other products of other companies. It can be concluded that corporate image is influenced by how the company conducts its business activities. PT. PKG has built a good image in the eyes of the public and consumers by performing the CSR activities as proven by product sales and opinions of the local farmers about PT. PKG and its products.

Human Resource

The total number of employees in the end of 2012 are 3,339 employees. To manage its human resources, PT. PKG has a Competency-Based Human Resource Management System (HRM-BK). With the PT. PKG system is expected to create quality human resources. PT. PKG conducts some trainings to improve the quality of the existing employees, in order to optimally run its operations. In addition, the company also gives an equal opportunity for the employees to obtain education and training to improve their quality. The company is also trying to create work environment that is safe and comfortable for the employees.

By conducting CSR activities, employees as the stakeholders also get benefit because whenever there is an increase product sales and targets is met, the employees will receive bonuses for the achievement of the target. Giving bonus if the target is hit makes the employee to be motivated in

achieving the company's target and the company's performance will also be better.

Thus, it can be concluded that the performance of human resource is influenced by the company's financial performance and the training that had been held by PT. PKG. The training was held to improve the skills of the employees so that they can work and meet the targets that have been set by the company. With the achievement of the target company will earn profit. The profit will stimulate employees to work even harder. Furthermore, financial performance is also influenced by the image of the company. Company's good image in the eyes of the community will increase their product sales and generate more profit. Therefore, financial performance, good corporate image, and human resources of PT. PKG as shaped by the implementation of the CSR activities. The image affects the sales of the product as indicated by the increase in the profit margin of the company. The increase on profit margins indicates the increase on profits. In addition, the profits of PT. PKG stimulate employees to perform a good job as supported by training so that employees are able to work optimally and achieve the targets set by the company

VI. Conclusions

Based on the findings of this study, it can be concluded that PT. PKG has undertaken various CSR activities. CSV as CSR program in PT. PKG is implemented by providing assistance to the Small Medium Enterprise (SME). One of the SME being assisted by PT. PKG is Meduran Garbage Bank.

Meduran Garbage Bank gives positive impact on PT. PKG, because Meduran Garbage Bank can increase corporate image and indirectly, influence the company's financial performance and human resource performance. The implementation of CSV as a CSR program is quite well although not for of the assisted SMEs to run well and smoothly and can exist a long time, but CSV in Meduran garbage bank CSV still runs today.

CSV program gives positive impact on company performance. In this study, the company performance is represented by financial performance, corporate image and human resource. By having CSV program, PT. PKG has a good image in public and consumers which make the financial performance and human resource performance also increase. It is shown by the increasing ratio of corporate finance particularly ROA, ROE, and profit margins. On the other hand, human resource performance also shows the increasing number of skillful employees. Because PT. PKG always increase their employees performance by providing training, seminar, and also sometimes PT. PKG sends their employees to study abroad so, the employee's knowledge can be increased.

VII. Recommendation

The writer realizes that there are many flaws in this study. It is expected that the next research on related topics will expand the scope of this study by discussing CSV more deeply to obtain higher degree of understanding on this concept. In addition, it is suggested that the further research involves the company's performance indicators so that the research will be holistic.

In this study, the researcher only uses three indicators items, namely financial performance, human resources and corporate image. Company's performance can be viewed from all sides, the researcher hopes that the further research could include indicators of customer satisfaction and production. Next, the financial performance indicators can also increase in this study, the researcher only uses ROE, ROA, and profit margins. Other financial ratios can be employed as an indicator of the financial performance. So, it is expected that the next research should be more complex and detail. More detailed, research will be able to increase the understanding on the implementation of CSR in general and especially the impact of CSV on company's performance. Indicators of company performance should be more detail than the previous research which frequently use financial indicator only, however this study only uses three indicators.

VIII. Limitation of The Study

This study has some limitations. The limitations are the researcher only obtains the information dealing with the CSV program from the cooperative. Due to time limitation for preparing the document needed for this study. The company rules are very strict, so that it is difficult for the researcher to gather the data. Before conducting the study, the researcher must write a proposal for the company and after that the company will provide an assistance for obtaining the data.

Because there was no enough time to prepare the proposal so, the researcher only obtain the data from the cooperative, consumer, and document related to this study. Another limitation is the researcher only uses

three indicators to analyze the company performance, because the researcher did not have sufficient data on company's performance since the researcher only uses annual report and other publications.

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