

CHAPTER IV

ANALYSIS

Unilever Indonesia as a multinational company already operating in Indonesia for more than 70 years has made a lot of contribution to the nation and its development. The contribution is not only restricted to the growth in the nation's economy; the company has made significant contribution to the nation's growth as a whole. For those many years to be exact 74 years and counting the company has "resided" in Indonesia, it has been a very good citizen; referring to the concept of companies are alike with citizens.

As a good corporate citizen Unilever has given many and many efforts to help escalate Indonesia. This is visible and evident from the many awards the Company has received for its outstanding achievements in its CSR conduct from various organizations; governmental and non-governmental. The Company holds strong to their commitment, reflected on their mission "Adding Vitality to Life". Unilever Indonesia is committed to contribute a lot more to the nation and preserve their existence for many years to come.

IV.1 Implications of CSR Theories at Unilever Indonesia

In general, theories concerning CSR which have been developed by numerous parties have been applied well at Unilever. Furthermore, they have gone beyond what the theories have required them to do, it can be said that they are ahead of the books and the theories. The fundamental aspects of CSR according to Synergos institute consist of environmental stewardship and corporate governance. The environmental stewardship has been greatly

implemented, one of the CSR programs that Unilever conducts is Black Soybean farmers' development program, the program provides farmers with guidance and assistance in how to plant and harvest the black soybeans in a manner that is environmentally friendly.

The company is engaged with the farmers by making agreements and contracts with them, Unilever is committed to buy the black soybeans harvested for the production of their product "Kecap Bango" at a fair price. This ensures a market for the harvested black soybeans and supplies for the production of Kecap Bango. So far this program has contributed about 21% for the needs of production for Kecap Bango.

As for the corporate governance, it has been implemented quite well, all the tools required to ensure good corporate governance are already in place. From Board of Directors (BOD), Board of Commissioners (BOC), Corporate Risk Management Team, Corporate Relations, Investor Relations, Audit Committee, and a Corporate Secretary are all in place to ensure the corporate governance in the company. Apart from that, the Blue Umbrella team is established to ensure compliance of every element in the company with existing laws and regulations, to prevent any violation of the regulations and as a medium for whistle-blowing. The Blue Umbrella team is there to minimize violations of the regulations. As evidence of the good corporate governance at Unilever, the Company has received awards recognizing their good corporate governance practices and has been ranked among the best in companies in Asia. Some of the awards the company has received are:

- Awarded by Finance Asia as one of Asia's Companies in 2007 as best managed company(3rd rank), Best corporate governance (3rd rank), best commitment to strong dividend payments (3rd rank)
- Awarded by SWA Magazine in 2006 to Mr.Maurits Lalisang, CEO of PT Unilever Indonesia as Best CEO, employees' choice

- Awarded by IICG and Swa Sembada Magazine in 2003 the 2nd best corporate governance

Their principle in conducting business which is reflected upon their CoBP is one way to look at the strong intention of the company to implement good corporate governance.

As stated by Sir Adrian Cadbury, corporate governance is there to align as nearly as possible the interests of individuals, corporations and society. Unilever, in their full capacity has assured that every decision made is aligned among the interests of individuals, the company and society. One example is for the decision making process for its products Unilever co-operates with the Safety and Environment Assurance Committee (SEAC) in the UK, to assure that decisions concerning the safety and the environment of the products are done separately from commercial decisions.

In complying with the principles of corporate governance, Unilever as a multinational company is more inclined to the OECD principles. However, since its base of operations is still in Indonesia it does not violate any of the principles formulated by the NCCG. Regarding the accounting policies and regulations, the company attempts to comply fully with existing regulations in Indonesia for its financial reporting obligations vested in them.

Unilever has been awarded several times for its commitment to strong dividend payments by Finance Asia, this shows how the Company is not neglecting the rights of the shareholders one of which is to obtain dividend payments from the money invested in the company. General meetings for the shareholders are held on a timely basis and every shareholder has the right to attend and has a say in the meeting.

Shareholders' basic rights include:

- 1) Secured method of ownership registration;
- 2) Convey or transfer share;
- 3) Obtain relevant information on the corporation on a timely and regular basis;
- 4) Participate and vote in general shareholder meetings;
- 5) Elect members of the board; and
- 6) Share in the profit of the corporation.

Unilever has done their obligation to give the shareholders what they are entitled to. The company is committed to the CoBP, for example the CoBP states that shareholders must be kept well-informed and they should be granted access to information concerning their investment decision. Unfortunately back in 2005, it failed to deliver a piece of information significant to the investment decision of the shareholders. The Company has given away the thought that the information was not disclosed because it does not meet the disclosure requirements; accounting principles.

In addition, all shareholders of PT Unilever Indonesia, Tbk. are treated equally there is no discrimination against minority and foreign shareholders. This is also in compliance with the Company Law No 1 year of 1995 regulating treatment against all shareholders, it can be found in article 54, 55, 110 and 117 respectively concerning the right to sue the company, the right to access information concerning the company, the right to file a request to cease the company to the State Court, and the right for fair treatment.

Other than the shareholders of the company, Unilever also pays a considerable amount of attention towards their stakeholders. As can be seen from the map of stakeholders taken from Leonard J. Brooks' book illustrated in chapter 2, multiplicity of stakeholders in a

company exists. Should the company loses the support of one of its selected set of stakeholders the company will possibly be troubled. In addition, if the support it loses is the support from its primary stakeholders then the company is doomed to meet a lot of difficulties. Aware of this, the company is committed to satisfying all of its stakeholders. By committing themselves to the stakeholders eventually the Company can rest assure that they will sustain for more years to come.

To further emphasize the role of stakeholders in corporate governance is how CoBP; which is a manifestation of corporate governance in Unilever, is socialized to every stakeholder. Stakeholders are more and more involved with the company in enhancing the performance of the company. The stakeholders are also supplied with relevant information supporting the corporate governance process i.e. community is supplied with a sustainability report to communicate the company's performance in CSR programs.

Information that needs to be disclosed is included in the Company's reports; annual reports and sustainability reports. Additionally, information disclosed in the reports is audited annually by an appointed accounting firm, at Unilever Price Waterhouse Coopers is appointed, and reports should be prepared and disclosed in accordance with existing regulations, PSAK and IFRS. After the reports are audited by the independent auditors, it is disseminated to the relevant users. Being a public listed company, Unilever must publish their audited financial report, and it is their choice to also publish the audited sustainability report, though no regulation in Indonesia has required them to do so. Moreover, transparency in reporting should be sufficient that no information is left hidden from the stakeholders. Referring to the mishap in 2005, the Company should have made a disclosure on the significant event they were committed to do.

One element of the corporate governance is the Board of Directors. The Boards are put in place to govern the company not to manage, managing is managers' task. . Furthermore, the Board sets the target for the company's shareholder value and ensures the required resources are available so that the company can meet its goals. It must also be bear in mind that the function of the board of directors is to represent the shareholders in monitoring and guiding the business. Other than the board of directors, the board of commissioners is also there. The commissioners are charged with the duty to supervise the policy of board of directors in running the management of the company and ensure that the board of directors consider the interests of every concerning stakeholder in making decisions for the company as well as assuring that decisions made are for the best interests of the company as a whole. Record in 2006 shows that the Board of Directors held twenty-four formal meetings and the attendance level is 90%, and Board of Commissioners held four formal meetings with 85% attendance, both numbers indicate a rather high commitment of the Boards in successfully implementing the corporate governance process.

Supporting the excellent corporate governance is a superb reputation in committing to the stakeholders. Those stakeholders can not be classified all at once in one group they must be categorized based on their needs. It is very important to identify the needs of the stakeholders so that it is easier for the company to effectively and efficiently meet their needs. A technique that might be used is the Stakeholder Needs Analysis, this technique will inform the board of directors of the primary stakeholders of the company and their primary needs.

In fact, at Unilever Indonesia all stakeholders are deemed to be important. As one of the means to fulfill their responsibility to the stakeholders, the company organizes and formulates CSR activities. CSR activities at Unilever Indonesia are focused on three areas, namely health and hygiene, local economy and environment. These activities are targeted to

manage the impacts caused from their overall operations to the community. The impacts are in particular to the community's activities, business operations, and extended supply chain.

In order to be more sustainable, Unilever truly believes that its CSR programs should cover the aspects of environment, social and economy. For that reason, it conducts programs relating to that area. In addition, each brand under the name of Unilever is planned to have its own social mission which will eventually support the realization of the company's mission "adding vitality to life"

The commitment of Unilever to these three aspects has proven evidently, the company is sustainable and has successfully become the market leader for most of its products. Moreover, its CSR programs are gaining recognitions from many institutions. The International Green Apple Award for Best Environmental Practice is just one of the many awards Unilever has received. This award is the most recent one the company received; it is awarded by the Green Organisation in UK for the Surabaya Green and Clean Program.

Doing CSR beyond compliance can be considered as an indicator that the company has been a good corporate citizen. The theory of corporate citizenship is broken down into three components:

- Corporate Social Responsibility
- Corporate Social Performance
- Corporate Social Responsiveness

The corporate social responsibility concept underlining the obligations and accountability of a company to the society has clearly been conducted well by the company, it is evident from the positive effects that the programs have created and enjoyed by the society. The company fulfils all four areas of responsibilities included in the pyramid of CSR, to be

exact economic, legal, ethical and philanthropic. The company is profitable, complies with the existing regulations; in fact it is doing very well beyond compliance, it is generating profits in an ethical manner and last but not least it is a good corporate citizen.

Besides being a responsible company to its stakeholders, Unilever is also a highly responsive company. The company tends to be proactive in taking actions; it is frequent that the company by their own will and initiative take actions to respond to changes occurring in the society before the society feels the urge to take any action. The CSR programs are designed to raise awareness to emerging issues and how to solve those issues, for example the Surabaya Green and Clean proposes to reduce waste in Surabaya which is growing more and more. Another example is the Yogyakarta IHPP, this program aims to promote healthy lifestyle so that diseases caused mainly by bacteria or unhealthy lifestyle can be prevented.

CSP is related to multiple stakeholders, according to the model of CSP developed by Stephen L. Wartick and Philip L. Cochran in a journal entitled "The Evolution of Corporate Social Performance Model" *Academy of Management Review* (Vol.10, 1985). 767, the CSP connects the CSR with the corporate social responsiveness and policies, programs and observable outcomes. CSP is an essential indicator for ethical investors and it is increasingly becoming an important factor considered by investors.

The need for a Corporate Social Performance Index is growing strongly. Baue (2003) said that "The index rates a company on its CSR strategies and how well it has integrated those strategies into its overall business operations. The index also rates company management practices that impact the community, environment, marketplace, and workplace." Though, an index indicating the CSP is not yet available in Indonesia, Unilever always tries to communicate what it has achieved to its stakeholders especially on its CSR activities. The company decided to publish sustainability report even though it is not obligated

by the government and the board of supervisors of the capital market. The company wishes to inform all of its stakeholders on the progress of the CSR programs it conducts. Unilever is not only concern of the shareholders' bottom-line which is net income, it is also concern of the other stakeholders' bottom line and that is one of the reasons it employs the Triple Bottom Line approach so that every stakeholder group is considered.

According to James Reidel, businesses in the 21st century have several responsibilities that can not be overlooked. From further examination, Unilever has demonstrated its commitment to society's values and has contributed to society's social, environmental, and economic goals through the CSR activities. The company's activities are in compliance and in line with the values held by society.

The company also protects the society from the negative impacts of company operations, products and services. As can be seen from the pyramid of CSR at Unilever, they see CSR as the impacts of their operations to the overall community. Those impacts are from the community's activities, business operations, and extended supply chain. This way, the company is cautious and proactive so that the community will not be negatively affected from its operations.

Moreover, it was previously mentioned that corporations have economic responsibilities to be profitable in addition to that the company should share the benefits with their key stakeholders. In generating the profit, surely in line with principles of corporate governance the company only employs ways that are in compliance with the laws. The company intends with good faith that it will not intentionally violate or break any laws or regulations. It is persistent to be a good corporate citizen. Unilever Indonesia has been awarded by Finance Asia several times for its best commitment to strong dividend payments; the company also shares the benefit of its activities with the other stakeholders. As proof, the

CSR activities are ran not just for the benefit of the company but also to the community. The programs generate significant positive impacts enjoyed by the community. In the near future, the company is planning to come up with social missions for each of its brands to make the positive impacts on an even larger scale.

A good corporate citizen covers three aspects, namely corporate social responsibility, corporate social responsiveness, and corporate social performance. There are three perspectives linking the corporate social performance and the corporate financial performance. At Unilever, from examination there is an interactive relationship between these two performances with the company's reputation.

The company performs really well financially in fact it is one of the biggest companies in Indonesia moreover as mentioned before its strong dividend payments can serve as an indicator of the corporate financial performance. Socially, the company has been a good corporate citizen serving all of its stakeholders' needs. To add up, its large scale has helped them to contribute more socially hence making them a better corporate citizen.

Consequentially, being a good corporate citizen has earned the company a good reputation and image in the public eyes which eventually help enhance the corporate social performance and financial performance. Thus, the relationship is mutual among the corporate social performance, corporate financial performance and corporate reputation. They support one another in helping the company to be a good corporate citizen.

From the conventional view, it is believed that in order to be a good corporate citizen a company should make charitable donations and do local community action it focuses on direct physical environment of the company. Unilever does not adopt this view, making charitable donations regularly translates to causing the community dependent to the company. Unilever only conducts sustainable CSR programs in the hope that programs will sustain without the

company's constant assistance. Therefore the target community will be independent. Although Unilever does not want to cause the community to be dependent, occasionally the company also gives away humanitarian aids when disasters occur. As an example, when earthquakes occurred in Bengkulu and Padang, the Company immediately responded by giving humanitarian aids.

Thus, giving what was discussed comparing the concepts from the corporate governance to the CSR theories with the actual condition in the company it can be said generally that the company has been applying the concepts quite well by going beyond the concepts and the standards. Furthermore, Unilever is a good corporate citizen serving the needs of every stakeholder.

IV.2 Significant Ethics Issues at Unilever Indonesia

Businesses are increasingly coming to acknowledge the fact that they are responsible and accountable to all of their stakeholders and for that reason they must ponder on every decision which is going to impact the stakeholders. Hence, businesses are starting to consider the ethicality of their acts and decisions.

So as to be confident that all decisions made and actions taken are ethical, an ethical decision making should be put in place. The EDM framework proposed in the previous chapter is one way to be sure of the existence of ethicality. Decisions should be compared against four standards, namely consequences or well-offness created in terms of net benefit or cost, rights and duties affected, fairness involved and motivation or virtues expected. The first three are the commonly held interests of the stakeholders. All decisions taken at Unilever, especially the ones potential of affecting the stakeholders; decisions made by the Boards; are thought through so that it meets all the prerequisites in order to be considered ethical.

Each condition is satisfied. After an in-depth interview with the corporate secretary of the respective company and confirmations made from various stakeholders such as the company's NGO partners, employees and the community involved in the community engagement programs when making decisions the Boards always consider the well-offness of the potentially affected stakeholders; does bring more benefits than costs to the stakeholders from decisions made. However in terms of financial benefits or from the perspective that adopts benefits as increase in material equality, it has not yet to incur in the non-shareholders. Moreover, decisions are fair and just to the stakeholders and the company hence no one gains or loses more than the other. Supporting that is no rights of either the stakeholders or the company is violated in any decisions made. Therefore, all of the requirements which have to be met in order for a decision to be considered ethical are satisfied making Unilever a company operating and conducting business in an ethical manner. Moreover, the company is committed to only giving and producing things that will add value to itself and the stakeholders; it is consistent in maintaining its integrity. The company always has reasons that are righteous behind every one of its action to its stakeholders. Thus, having all the criterions evaluated; Unilever is more inclined to the fourth approach which is the virtue ethics which means that the company aims to be considered as a company with integrity and character.

A company with integrity will want to build a positive image among the community because they have integrity. Integrity has been defined by the Encarta dictionary as the quality of possessing and steadfastly adhering to high moral principles or professional standards. This is the concept of integrity the company strives to possess. Unilever believes that with integrity the company will have a more sustainable life. One of the attempts the company is already planning to do is come up with social missions for each of its brand; this will inspire the employees to also contribute in this attempt. All of the social missions will have a red line

connecting them all; this red line is the company’s overall mission which is “adding vitality to life”

To put further emphasis on the company’s ethical decision making evaluations and under the assumption that benefits gained are mostly in terms of social benefits; using the Moral Standards, 5-Question and Pastin’s approach the results are as follows:

Moral Standards Approach	
MORAL STANDARD	QUESTION OF PROPOSED DECISION
Utilitarian:	
Maximize net benefit to society as a whole	Does the action maximize social benefits and minimize social injuries? Yes
Individual rights:	
Respect and protect	Is the action consistent with each person’s rights? Yes
Justice:	
Fair distribution of benefits and burdens	Will the action lead to a just distribution of benefits and burdens? Yes
*All three must be applied: none is a sufficient test by itself	

5-Question Approach	
IS THE DECISION	STAKEHOLDER INTEREST EXAMINED
1. profitable?	Yes
2. legal?	Yes
3. fair?	Yes
4. right?	Yes
5. going to further sustainable development?	Yes

Figure 4.1

Regarding Pastin's approach, Unilever has ground rules or fundamental values that govern their desired behavior. The company adopts the Code of Business Principles established by the Blue Umbrella team as the ground rules. Supporting the ground rule ethics' aspect is the rule ethics. The company highly respects individual's rights as it is ethical to do so. For that reason too, the company always tries to take actions which will bring the greatest net good for every concerned group. The social contract ethics' aspect incorporates fairness, in formulating decisions the company assesses whether impacts caused will be fair upon the stakeholders

Through further assessments employing these three approaches, it can be confidently said that Unilever is a company with a virtual expectations approach in ethical decision making furthermore its objective is to gain integrity. This shows how the company recognizes the importance of considering motivation and behavioral expectations. Unilever does its best to not be short-sighted on its decisions. Moreover, it is evident that employees who continually make decisions if the reasons are right will represent a rather low governance risk.

Adding vitality to life does not only translate it can only be done through its products so that consumers are the only one affected, this also means the company wishes to produce values to its entire stakeholders. Unilever Indonesia is widely known as a company that cares about its stakeholders not just its shareholders. It is also aware that stakeholders form groups and those groups have different needs from one another, that is why the company always conduct a stakeholder impact analysis whenever it is making a decision.

Through assessments and evaluation Unilever has successfully identified its primary stakeholders, the ones who will affect them in reaching its maximum potential and without the support of whom may cause the company to perish. These primary stakeholders are classified

into three categories, the most urgent stakeholders, the most legitimate, and the most powerful.

Based on analysis, it is concluded that government is the most legitimate stakeholders, because they have legal and moral right to influence the company; the most powerful stakeholders are the NGOs and associations because they have the power to influence the company through the media, government, or other means; and the most urgent stakeholders are the employees since they are the pillars and the backbone of the company, what the company does will eventually take effect on the employees. Therefore, they are very concern of how well the company is doing. However, it must be bear in mind that stakeholders' needs evolve constantly so this might change eventually. The urgency depends on the issues brought up to the stakeholders.

Ethics risks and opportunities must be foreseen moreover it should be embedded from the stakeholder support perspective, an investigator may not recognize risks that could lead to loss of support or opportunities for the creation of competitive advantage based on support. By monitoring these two, the company may gain a competitive advantage.

To monitor these two, it is better if an ethics risk and opportunity identification and gap assessment is conducted; the first thing to do is identify the stakeholders and then it should be ranked by the urgency, power and legitimacy. Then, dynamic influence analysis should be done; projections about who in the network of stakeholders will influence whom and forecast which issues and interests will be more important. After this it is fully understood which ones are the most sensitive and important and why. These projections should be confirmed; confirmations were only obtained from the primary stakeholders, namely the employees of Unilever, the government and a few of the involving NGOs. They all confirm of their positions and needs as stated on the analysis of the stakeholder identification.

Afterwards, activities are compared to expectations from the six hypernorm values which are honesty, fairness, compassion, integrity, predictability and responsibility. At Unilever, corporate activities respect these values therefore the company's activities satisfy the expectations of the important stakeholders. Moreover, the comparison of the company's activities and expectations should be reassessed from the perspective of potential impacts on the company's reputation; it can be done using Charles Fombrun's model where reputation depends on four factors, namely trustworthiness, credibility, reliability and responsibility. Unilever's reputation is very good in Indonesia and through out the world, it is fairly known as a company that is corporate activities respect these values therefore the company's activities satisfy the expectations of the important stakeholders

In phase 3, ethics risks and opportunities are identified so the next step is to generate the report. The results from the identification and gap assessment can be found in the CoBP as it gives details on boundaries and limits of what people concerning the company can do. The CoBP is effective on each individual working at Unilever and on third parties doing transactions with Unilever. There are four important aspects in CoBP, namely honesty, integrity, transparency and respect of human rights and interest of our people. The CoBP is very clear on the boundaries and for further interpretations if one feels it is not sufficiently understandable, one can ask the Blue Umbrella tam.

Every set of tools required for dealing effectively with these risks and opportunities is put in place in the company. For the ethics strategies and tactics of stakeholder relations, there are the CFO with the Board and Corporate Secretary managing the investor relations along with UPF maintaining a good relationship with the stakeholders.

UPF specifically handles the corporate social responsibility area of the company. The company formulates their strategy with CSR as an integral part of it. Furthermore, Unilever is

expected to give positive impacts on its stakeholders and make disclosures about the impacts. Despite the fact that the government has not yet to publish any regulations requiring companies to issue sustainability reports, Unilever decided to publish SR once in every two years to keep their stakeholders informed on the progress of their CSR activities. It should also be noted that SRs published by Unilever are audited by lead auditors appointed for each element evaluated, to be exact quality system management, environmental management system, safety and health system management, social accountability- SA 8000 (inclusive of Lead Auditor for Code of Conduct and Code of Ethic).

Unilever keeps track of their CSR through the use of measurements or indicators. They appoint auditors to inspect the activities in the field. These measurements or indicators of CSR can take many forms grouped into categories covering:

- Codes or statements of guidance, their currency and their reinforcement;
- Job creation;
- Relations with communities and local stakeholders;
- Environmental management programs;
- Environmental performance;
- Ethical sourcing and trading practices.

Other than external auditors examining and inspecting the CSR activities of the company, Unilever also assigns employees to be internal auditors to reassure the ongoing process of the activities. Some of the internal auditors are the motivators outsourced from an outside company CV Sanjaya Padmalestari and concerning program managers responsible for their programs.

On the other hand, the Blue Umbrella articulates the workplace ethics and they also handle the ethics risk management along with the audit committee. For risk management, a Corporate Risk Management team is specifically designated. Other than the corporate risk management team, there is also a designated team for crisis management by the name of Unilever Crisis Management Team. And as for the international operations, since Unilever Indonesia is classified as Unilever in the region of Asia, Middle-East, Turkey and Asia; it has a regional office in Singapore managing the international operations.

As a multinational company a culture imperialism does not occur moreover it is considered as a multi-local multinational company due to its closeness to the nation. In conducting its business, the company is willing to give positive effects to the local economy and culture; they adopt some of the different local foreign practices but not all, in fact some are banned; bribery is considered to be a common thing in Indonesia but Unilever chooses to ban and prohibit the practice of this custom.

On another matter, the company always considers the reaction to changes from domestic stakeholders and particularly the primary stakeholders including major customers and capital markets. The company is really careful in taking acts and making decisions so that it does not contravene with the labor markets; raw material and other input markets; political and legal processes; and religious and social customs. The company has been adapting very well to Indonesia, it is almost as if Unilever is a national company. The company acknowledges the fact that their good reputation is a valuable asset therefore it is very careful and considerate so that no damages will incur to their reputation.

Unilever as a multinational company complies with the standards in its host country and the international standards as well. Therefore, it also complies with the Sarbox in the auditing process whether internally or externally. This is to make sure that the accounting

practices in the company have been in compliance up to the highest standards. The company realizes that it should not over rely on the external auditors to detect problems. The external auditors are from the local branch of Price Waterhouse Coopers public accounting firm and the internal auditors are from Indigo public accounting firm in India.

IV.3 Corporate Social Initiatives at Unilever and the Benefits from Doing Good

Kotler and Lee (2005) defined corporate social initiatives as “major activities undertaken by a corporation to support social causes and to fulfill commitments to corporate social responsibility.” The traditional approach was doing good to fulfill an obligation however more and more companies have shifted to a new approach, to be precise doing good as to support corporate objectives as well. The growing number of companies adapting this new approach may partially be influenced by the bottom-line benefits they have experienced by doing good. Research conducted by Business for Social Responsibility has come to this conclusion that companies doing good have experienced a wide range of bottom-line benefits.

There are six options for doing good, as previously stated in chapter 2 and Unilever does good through some of the six corporate social initiatives. The initiatives undertaken along with examples are as follows:

- Cause promotions

The company joined forces with Delta Radio, Koran Republika and Aksi Cepat Tangkap (ACT) to keep Jakarta green and clean. Unilever allocates resources to increase awareness on the importance of keeping the environment green and clean. Unilever hopes that eventually the whole nation will be green and clean.

- Cause-related marketing

An example of this is the promotion of the new Vienetta from Wall's. For every product purchased Rp.1000,- from each is going to be donated to underprivileged kids to help their school tuition.

- Corporate Social Marketing

Unilever supports the act of the nation to prevent HIV/AIDS and reduce the number of HIV/AIDS cases. Close-Up's HIV/AIDS campaign is an educational campaign to reach out to youth and communicate to them about HIV/AIDS. Unilever supports behavior change campaigns to improve public health and environment or community well-being.

- Community volunteering

In the JGC and SGC programs, the company organizes volunteer activities and support local community organizations (RTs and RWs) and causes which mainly focuses in keeping a clean environment.

- Corporate philanthropy

Direct contribution to a cause in the form of money is only done on special occasions like disasters for example the Tsunami hitting Aceh back in 2004. For the rest, the company usually donates products for NGOs giving proposals for a cause or a charity.

- Socially Responsible Business Practices

Unilever adopts and conducts discretionary business practices and investments supporting social causes and improving the overall well-being of the community and protecting the environment. One of the Green and Clean programs' objectives is to reduce the plastic waste circulation caused by Unilever's products. The black soybean woman farmers' development initiative is intended to improve the well-being of woman farmers and empower them.

At Unilever, almost all their brands have their own social mission; it is planned that sometime in the future all of the brands will have their own social missions. By doing this and conducting CSR through other activities that impact directly to their stakeholders; the company has experienced many benefits. Its sales have boosted throughout the years; revenues in 2006 skyrocketed to US\$1.2 billion; following this is an increase in its market share. The firm, in the January-September 2007 period, recorded sales of Rp 9.6 trillion, up 11% on the year. The impacts are mostly indirect, but it is evident that through the corporate social initiatives done by the company, Unilever's products have been more widely exposed to the public. This is also due to the positive images associated with the company and its products.

Furthermore, supporting the positive images associated with the company and its products, Unilever has also experienced strengthening in its brands which is involved with CSR activities and ones which have social missions. For example, Royco supported and rode along one of the company's CSR activities *Merdeka Dari Sampah* (Liberated from waste) in Surabaya. Royco did a joint program with the *Merdeka Dari Sampah* team; the joint program was *Merdeka dengan Gizi* (Freedom with Nutritions). This program educated housewives about the important of the nutritions through cooking competitions. This has also helped Royco increase its sales and market share moreover strengthen its brand position. The programs endorsed by brands and other companies' CSR activities have also improved Unilever's image and clout.

A strong reputation in the community will strengthen the company and be a real asset especially in times of crisis. The greatest asset that a company can have is its reputation. Unilever has a strong reputation; the company is very aware of this and for that reasons

besides making ethical decisions they also conduct CSR in order to take care of their stakeholders. This will eventually lead to improved corporate image and power/influence.

Stakeholders being taken care of are not just the stakeholders outside of the company; the company also pays a great attention to its employees. Furthermore, a company with CSR as an integral part will find it easier for them to attract, motivate and retain employees. The company's participation in social initiatives has impacted positively to the employees. Employees of Unilever are proud of their companies' values because they know that they are working for a company with cause-related programs.

The company has yet to incur a significant decrease in operating cost through doing CSR. However, through the black soybean initiatives the company can obtain black soybeans needed for the production of Kecap Bango easier. To add up, externalities that might occur are considered hence any possibility that contingent liabilities might occur is minimized. On another matter, some might argue that by being involved in corporate social initiatives, stock value of the company may increase. However, it may be said that this is not the case at Unilever Indonesia. Ethical investors are not yet common in Indonesia so the appeal of Unilever to investors and financial analysts is not really affected by their performance in CSR. Still, the number of ethical investors in Indonesia is growing steadily.

IV.4 Unilever Indonesia's Contribution in Achieving the MDGs

The UN along with 147 Heads of States from 191 countries made a declaration that by 2015 it would work collectively to achieve the eight MDGs. Unilever Indonesia as a giant company residing in Indonesia is also contributing in the achievement of the MDGs, it has taken the role of an actor encouraging and inspiring the public to attain the goals. Apart from that, the Company is also proactively giving contributions to the achievement of the MDGs.

Unilever has been doing CSR since it was first established, in November 2000 it founded the UPF to make the CSR activities more organized, structured, and focused. The CSR activities that Unilever runs strive to achieve the MDGs. From assessment and evaluation, the programs mainly focus and give direct contributions to the six out of eight goals, namely:

1. Eradicate extreme poverty and hunger,

Unilever attempts to eradicate extreme poverty and hunger through several programs that it runs namely the Black Soybean Farmers' Development Initiative, Black Soybean Seed Development Program, *Merdeka dengan Gizi* (Freedom through Nutrition) and many humanitarian aids it has given to help people in need in particular when disasters occur. *Merdeka dengan Gizi* is a joint program between the *Merdeka Dari Sampah* program and Royco. It attempts to promote healthy nutritious foods. As for the BSB Farmers' development program and BSB seed development program, they have contributed significantly in improving the local economy thus helping to ease the poverty in the local area. Apart from that, Unilever also collaborates with the UN in the World Food Program to fight hunger by giving food aids.

2. Promote gender equality and empower women,

The BSB woman farmers' empowerment promotes gender equality and encourage and empower women so that that they believe that they can do as good as what the other farmers can do. Unilever aims to strengthen the woman farmers' self confidence and ability, with a series of training.

3. Reduce child mortality,

Diarrhea is one of the diseases which significantly cause child mortality. Through the IHPP in Yogyakarta and Lifebuoy Berbagi Sehat both promoting healthy lifestyle one

of which is through a habit of washing hands, the number of child mortality can be reduced. This gives Unilever the role as a moral actor inspiring the public to adopt healthy lifestyles, thus helping the UN to reduce child mortality.

4. Combat HIV/AIDS, malaria and other diseases,

The number of people suffering HIV/AIDS is growing dramatically with time; this is clearly a concern for many people. Unilever as a giant company in Indonesia is surely concern about this crisis which is becoming an epidemic in Indonesia. One of Unilever's products, Close-Up has a social mission to mobilize Indonesian youths to see, feel, hear and take action to help spread information on HIV/AIDS. With the slogan of "Brani Ngomong Brani Buktiin" Close-Up embarked on an HIV/AIDS educational campaign to reach out to youth.

Besides the HIV/AIDS educational campaign, Unilever is also fighting other diseases through their other ongoing programs they organize such as the Pepsodent Dental Health, Yogyakarta Integrated Health Promotion Program and Lifebuoy "Berbagi Sehat"

5. Ensure environmental sustainability

Unilever is very concern about their surroundings, that's why it employs the triple bottom line reporting which considers people, planet and profit. Planet represents the environment. Unilever has put many efforts to help preserve the environment. Moreover, the awareness of people in Indonesia of the important of keeping the environmental sustainability is still very limited. Through its various programs such as Jakarta Green and Clean, Surabaya Green and Clean, and Merdeka dari Sampah; the Company tries to give a wake up call to the society and encourage them to take a collective action to preserve their surroundings. These programs have significantly

helped areas in Jakarta and Surabaya to be a cleaner, greener and healthier environment.

Other than the environmental programs the company developed, it also runs the Black Soybean seed development. This program initiated the development of the black soybean variety which is outnumbered by the varieties of yellow soybeans developed. So far in Indonesia there are 51 varieties of yellow soybeans and before “Mallika” was born there were only 4 varieties of black soybeans. With the birth of “Mallika” it is hoped that the black soybean variety will be sustained.

6. Develop a global partnership for development.

On the road to achieving the MDGs, Unilever is fully aware that it can not take full responsibility and act alone. This is only possible by employing teamwork, moreover since it is a declaration made by 191 nations, global partnerships will be of great benefit. One of the global partnerships Unilever has formed is the partnership between Unilever and the United Nations through the World Food Program. Along the UN, Unilever has been struggling to fight hunger on a world-wide level.

Although the Company is only contributing directly to six out of eight of the MDGs this does not mean that Unilever has no contribution whatsoever in the achievement of the two other goals, namely to achieve universal primary education and improve maternal health. Primary education is the education you obtain from primary or elementary school. In Indonesia a specific policy regulating the right of every citizen of Indonesia to get the six years primary education had been set moreover it was modified and extended to 9 years of education up till secondary high school. However, the company does not award any scholarship but in its programs, i.e. the Pepsodent Dental Health program and the Lifebuoy

Berbagi Sehat, materials given and taught to the audience, mainly school children, are aligned with their school curriculum based on their grade or education level.

On the other hand, another program in the health and hygiene area, the Yogyakarta IHPP is contributing to the improvement of maternal health indirectly. The IHPP program also does revitalization to Posyandu (a post for healthcare generally located in rural areas). Posyandus mainly inspect and examine the health of pregnant women and children under a certain age, normally five years old. The revitalization of Posyandu will eventually improve the services given by the Posyandu thus improving maternal health.

Mrs. Maya F.Tamimi; the SME program manager of UPF; has said that “UPF was established in November 2000, the MDGs were formulated in September 2000. It was not until two years ago, that the company realized that they are also contributing to the achievement of the MDGs declared by UN. Mrs. Erna Witoelar; one of the ambassadors for the MDGs and the wife of the current state minister of environment; was the one who told the Company that their programs are already aligned with the MDGs” Supporting this is the appreciation in the form of award given by the nationally syndicated news channel, Metro TV. Unilever’s environment program has recently been awarded the Millennium Development Goals Award.

IV.5 Unilever Indonesia’s Compliance with CSR regulations

Not many regulations on CSR have been created in Indonesia but some of which are PROPER, AMDAL, and UU No 25/2007; as for the international standards, the GRI is the most commonly held standard for sustainability reporting in the world.

PROPER as a program to assess a company's performance in the management of environment is considered by the company as an award. PROPER which is a program arranged by the ministry of environmental affairs award companies and rank them based on assessments made. Based on aspects evaluated to achieve green and gold status Unilever's factories in Cikarang and Rungkut has earned the green status in three years in a row.

Unilever implemented an environmental management system based on ISO 14001 used to manage the impacts from the factories on their surroundings. This allows the company to make use of natural resources, raw materials and packaging material and/or energy efficiently; minimize on industrial waste in the form of solid or liquid and/or emission to the air; and maximizing on the production of final product by minimizing the number of defected products. Wastewater from the factory site is treated at an on-site treatment plant before it is sent to the industrial estate's treatment facility. Since 2004, Unilever has successfully reduced 21% water use at Cikarang and Rungkut. Moreover, in order to reduce the hazardous waste generated from industrial activities, Unilever has been trying its best to manufacture products as efficient as possible, reduce the amount of hazardous waste and recycle some of the residual wastes.

Since 2003, Unilever's factories have implemented various programs to reduce energy consumption. In 2006, Wall's ice cream factory implemented a program to save more energy. This program has successfully reduced 37% of the energy use at the factory compared to the use in 2005. The success of this program became an inspiration to the other factories, the tea based beverage factory has also implemented a quite similar initiative and they have reduced the energy consumption by 38%. In addition, Total Productive Maintenance (TPM) has been

implemented since 1992 to attain the efficiency target and achieve an ideal condition for the factories where differences between the actual and the ideal condition may be lessened.

Other than energy, Unilever's factories also manage its emission of gas; the company realizes that the Sulfur gas produced by boilers used at their factories may contribute to the acid rains. The factories make attempts to reduce the emission of the SO_x gas. In 2003, Unilever decided to switch the fuel for their boilers from diesel to low-sulfur natural gas. This initiative has reduced the emission of the SO_x gas significantly. However, in these recent few years the supply of gas to the Rungkut factory has been unstable so it had to go back to using diesel to fuel its boilers while looking for the supply of the natural gas. But, the Cikarang factory still maintains its use of natural gas.

Apart from the use of the resources and energy, the company also manages to give considerable attention to the surrounding community. Unilever's factories operate among large communities so Unilever strives to be good citizens among them. Knowing the great impact the factories are causing to the surroundings, Unilever tries to contribute more to the development of the community surrounding them by helping the community to develop more by stabilizing the local economy, providing jobs to the local community directly and indirectly. The company has also developed several programs to encourage the employees to be involved in addressing social and environmental issues in the community. Employee volunteering is also done periodically so that employees can conduct social and environmental services for the surrounding communities.

By taking a brief look at the factories' activities, it is of no wonder that Unilever's factories have been awarded green status in PROPER from KLH in three years in a row.

However, the company still feels that the assessments criteria formulated by KLH are still sufficiently clear. Unilever is eager to achieve gold status in PROPER; it has been doing many attempts such as installing advanced water waste treatment plant, switching from diesel fuel to natural gas fuel for its production activities. Still, it has not been awarded the gold status.

Other than PROPER, the company's factories also have to do an analysis on the impacts the factories might cause to the factories' surroundings. AMDAL is an evaluation of the significant and great effects to the environment performed in the planning phase and used in making decisions. AMDAL is only the process; after AMDAL is conducted documents will be produced. The documents generated are ANDAL, RKL and RPL.

In constructing its factory in Cikarang, Unilever did not produce the document of AMDAL because the factory is built in the industrial area of Jababeka; the management team of the area had already performed the AMDAL process beforehand for the whole area. For the RKL and RPL, Unilever periodically make attempts and rethink of what it should do in monitoring and maintaining as well as managing the environment surrounding the factories, the company updates its UKL (Effort to manage the environment) and UPL (Effort to monitor the environment) from time to time. Furthermore, environmental audits are done by internal auditors assigned by the company and external auditors appointed by the company as stated in the assurance statement of the 2006 SR signed by SGS.

Besides PROPER and AMDAL, the government has just recently established a new law regulating investment activities concerning corporate governance and CSR. The law requires companies to apply the principles of corporate governance and implement CSR.

There are no significant impacts to the company regarding the establishment of this new regulation since it has already been a good corporate citizen applying the principles of corporate governance and implementing CSR beyond the minimum requirements. It has been awarded many times for its excellent implementation of corporate governance and CSR by numerous different institutions.

CSR at Unilever is reported once in every two years since 2004, the latest report to date is the 2006 Sustainability Report. Its framework mainly looks up to Unilever Global and the environmental program manager of the company has stated that the format does not look up fully to the GRI. However, from the 2006 SR it can be said that the report complies with some of the first part of the GRI and the second part. In the SR it can be found about information which is material, the report also includes stakeholders and their involvement, the sustainability context from the firm's perspective is also discussed, and the extent of completeness of the report is also communicated to the stakeholders beforehand so that they know about the nature about the information given to them.

The report has been said to be incomprehensive. This is perhaps due to the reporting which is not yet optimal, lack of data and lack of human resources in reporting may have contributed in this. However the report is not sufficiently comparable to of those in the industry who have issued SRs because its framework does not comply fully with the GRI. Moreover, Unilever has done its best to make the report as accurate as possible but it faced difficulties in data collection and the time it took to gather all the data required is longer than what was planned; it was originally planned for 2 to 3 months, the actual time taken to collect the data was roughly 6 months. So the SR is not very accurate and timely to Unilever's standards. Despite the fact that the data is not very accurate and timely, it is reliable and

sufficiently clear. PT SGS Indonesia issued an assurance statement on Unilever Indonesia's 2006 sustainability report. However, there is no guidance on how to set the report boundary.

The standards disclosure in the 2006 SR have already included the company's profile, the management approach to sustainability and the key performance indicators used to measure the progress made on CSR activities. Internal audits are performed periodically by program managers and their assistants whilst external audits are performed by outside parties either the ones hired by Unilever Indonesia an example of one is the Robinhood Foundation. The auditors do field checks to provide assurance that the activities are done as instructed in the procedures. Protocols providing definitions for key terms in the indicator, compilation methodologies, intended scope of the indicator, and other technical references also can be found in the SR. Sector supplement describing difficulties faced by some industries is not found since Unilever is a consumer goods manufacturer. The company reports what it wants to report and they highly regard the importance of keeping the stakeholders well-informed so they try to communicate all the important information to the stakeholders.

Overall, Unilever's SR in 2006 only looks up to the GRI's standard disclosures. However, the rest of the standards established by the GRI are still included but they are reported in a different format. In other words, the content is included in the SR but the reporting process and the framework is not as required as in the GRI.

IV.6 CSR activities at Unilever Indonesia compared to PT Rajawali Corporations

PT Rajawali Corporation is one of the largest private companies in Indonesia. The company was established by Peter Sondakh in 1984, it has expanded into a range of businesses in the telecommunication, hotel, consumer goods and retail, and transportation.

The company's growth is supported by skilled professionals in various fields and in partnership with international companies including Sheraton, Novotel and Metro (Private) Limited. In 1995 Rajawali founded XL along with Verizon, AIF and Mitsui.

Rajawali also conducts CSR activities voluntarily; its approach towards CSR has also been modified. It does not see CSR as a burden it regards CSR as an investment opportunity. CSR is integrated in Rajawali's mission and core values. They aspire to be the most admired and valuable company dedicating themselves to:

- Delighting customers with superior products and services
- Inspiring and empowering employees to excel advancement opportunities
- Satisfying investors with superior rate of return and maximize stakeholders return
- Being a good corporate citizen

Furthermore, innovation, excellence, integrity, responsibility and respect are Rajawali's core values. Below is an illustration of how Rajawali integrates and does its CSR in its company

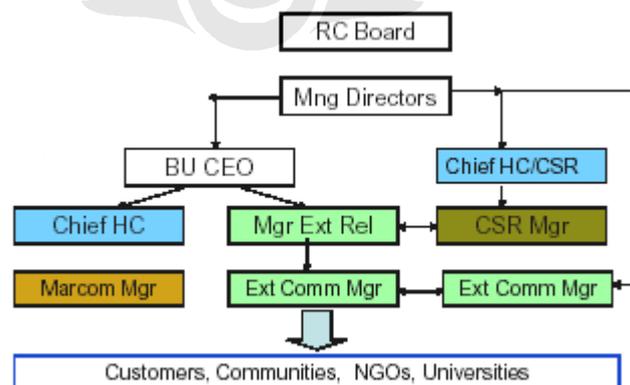


Figure 4.2 Source : Yaya Winarno Junardy (Rajawali's Chief Corporate Officer)'s presentation at "CSR for Better Life", 7th Learning Forum Series in Jakarta, 31 October 200

The CSR programs conducted at Rajawali must be aligned with their policy. CSR programs at Rajawali are mainly used for strategy and tactical needs. Their CSR programs cover the following areas:

1. Children and education

This is done through various programs such as children education support, SME training, XL goes to campus and so on.

2. Partnership for progress

Rajawali is forming partnerships with many institutions including Indonesia Business Links, Indonesia Marketing Association, Child Fund International etc.

3. Environmental preservation

To protect the environment they contribute in the sea turtle nursery, beach clean up program and the replanting of mangrove.

4. Philanthropy for the community

5. Disaster/recovery programs

Rajawali has gained many bottom-line benefits by doing good some of them are the positive image they obtain as a company that cares for community, environment and children; their employees have a sense of pride because they are active in the efforts done by the company and also a sense of ownership because the employees are regarded as partners by the company. Rajawali's brand image is also strengthened because of the increased customers'

loyalty and investors' preference which have shifted to them because Rajawali is a "good" company.

Rajawali's Chief Corporate Officer; Yanuardy (2007) has said that "a company should implement a balanced portfolio of CSR measures across the full spectrum of the company and the Board should be a proactive custodian of corporate values. He feels that the company should embrace corporate responsibility that sets the scene to long term profitability and competitiveness because by doing so the company will generate business advantage."

In comparison with the CSR at Unilever Indonesia, Rajawali also has been integrating CSR as its strategy in business. Rajawali has come to realize that CSR can also become an advantage of the company; it will differentiate them and make them stand out among the other companies. Unilever also uses CSR in order to obtain a competitive edge. Both Unilever and Rajawali aspire to be a good corporate citizen with excellent CSR programs. In addition, Rajawali's CSR activities are mostly handled and managed by the external communications manager whereas at Unilever a specific foundation is set up under the corporate relations department to manage the CSR activities.

The CSR programs at Rajawali are not very much alike with those at Unilever. The similarity between both is only on the fact that they both contribute to the preservation of environment. However, contrast to what Rajawali has accomplished, their CSR programs are not sustainable. The programs do not encourage and empower the community to be independent and continue on the programs if the company decides to stop supporting the programs. Contrary to this, Unilever intends to formulate sustainable programs raising community's awareness on important emerging social and environmental issues. The

programs will transform the community and in time they will eventually become independent so that in the future they will take the leading role in encouraging the others to be aware of the social and environmental issues. Although, Unilever also has disaster/recovery programs but it is only occasionally when huge disasters happen. Unilever does not want to cause the company to be dependent on the aids they give and for that reason also is why UPF rarely gives out donations in the form of money for charities. The standard procedure for this case at Unilever is to donate in the form of products unless being told or instructed otherwise.

Additionally, from the list of CSR programs conducted by Rajawali, it seems like CSR is regarded as a marketing tool for Rajawali. There is nothing wrong with the objective of getting the bottom-line benefits from using CSR as a means of marketing but CSR and the outcomes from the conduct will be even far better if the intention is sincere. Both the company and the stakeholders can gain benefits mutually; this is what Unilever has been experiencing. Significant positive impacts to the operations of their company have been generated as a result from the company's excellent CSR activities.

Rajawali's CSR programs need to be expanded more and cover an even wider target so that the programs will generate an even larger impact just like Unilever's CSR activities which are mostly done on large scales. The programs also need to be organized in a more structured manner. If Rajawali wishes to improve on their CSR conduct they should employ of the triple bottom-line approach so that the CSR programs can be done better, more converged and comparable to what the others have achieved. By doing this, they will get a hold more of what they are doing and a continuous improvement in their CSR conduct can be done.