

**THE INFLUENCE OF CORPORATE SOCIAL RESPONSIBILITY ON FINANCIAL PERFORMANCE**

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Submitted: 16 Juni 2024	Accepted: 22 Juni 2024	Published: 23 Juni 2024

**ABSTRACT**

This study aims to determine the effect of corporate social responsibility on the financial performance of a company. This research method uses a meta-analysis method with a data collection technique in the form of written documents and using books and journals. The data analysis that has been used is a qualitative descriptive approach. The findings of this study found that Corporate Social Responsibility (CSR) has an influence on the company's financial performance. Based on the results of existing studies show that there are differences of opinion regarding the positive and negative effects of CSR on financial performance. Some studies reveal a positive impact, while others reveal a negative or even insignificant impact. CSR disclosure can improve financial performance if it is done sincerely and provides information that meets stakeholder expectations. Well-managed CSR can benefit companies in the long run by involving all stakeholders in a fair and transparent manner

**Keywords:** Corporate Social Responsibility; Financial Performance.

**INTRODUCTION**

The company's concern is increasingly focused on social content issues, while seeking to maximize economic performance to satisfy shareholders and in a socially responsible way for its overall profits. Social, economic and environmental issues require companies to integrate systems that consider compliance in all areas, and also focus on the common good of society in general and stakeholders in particular.

In recent years, corporate social responsibility has received a lot of attention from both business and academic circles. Financial performance is an important factor when deciding whether or not to take on social responsibility (Zhu et al., 2016). Many researchers explore the relationship between finance and financial performance. And the two form two diametrically opposed visions in this regard, namely supporting the positive impact and negative impact of CSR (Edmans, 2011; Kruger, 2015; Flammer, 2015 ; Saeidi et al., 2015).

Financial performance refers to how a company increases, manages and uses capital in its business operations. Financial performance can be used as a general indicator of a company's overall finances over a given period. It is also of interest to internal and corporate stakeholders, including managers, employees, service providers, creditors, and shareholders. These stakeholders have different interests. For example, investors pay more attention to the company's revenue and future; Trading creditors are interested in its liquidity, while bondholders are interested in its cash flow capabilities.

Stakeholder theory (Freeman, 1984) emphasizes that responsible businesses pay attention to the interests of all related stakeholders simultaneously. The relationship between



CSR and a company's financial performance can be built when investors and stakeholders reward a company for its sensitivity and attention to its stakeholders. This research aims to find out how investors reward companies that have a good image/reputation in four dimensions of CSR.

There are three reasons why companies provide CSR information: to fulfill "contracts", to adopt and improve legitimacy and for economic performance (Mathews, 1997). CSR disclosure can improve performance if a company can make a positive impression on investors by providing CSR information that meets or even exceeds stakeholder expectations (Brooks and Oikonomou, 2018; Pham and Tran, 2020), and these activities can provide stakeholders and company owners with advantages for a mutually beneficial relationship (Wua and Shen, 2013).

The majority of research to date has focused only on the relationship between corporate social responsibility and financial performance. In general, the results showed a positive relationship, but there was inconsistency in the results. The reasons are twofold: the absence of a common reference method for comparative studies, and the absence of a method to measure the return on CSR (Gojerberg, 2009).

However, information about CSR can have a negative impact on the company's performance, if the company does not have genuine motivation and only provides information for presentation purposes. In cases like this, managers will tend to perform better in some areas of CSR while performing poorly in others (Brooks and Oikonomou, 2018). The superficial substance of these activities can negatively impact a company's reputation, compared to if investors and stakeholders are in a position to know the true story. Therefore, in theory, due to the complex potential of CSR reporting, further studies of the relationship between CSR disclosure and company performance are very useful.

Many empirical studies have been conducted on the relationship between CSR and corporate performance, but the results are not convincing (Al-Malkawi and Javaid, 2018). (Margolis and Walsh, 2002) have conducted a meta-analysis and found that for the relationship between CSR activities and company performance, about half of the empirical studies have documented a positive impact on CSR, while a quarter have no significant relationship, 5% show an impact relationships, and others document ambiguous results. Lately, the situation hasn't changed much. However (Wang et al., 2016), it should be noted that the impact tends to be more favorable in countries, namely the CSR-PCP relationship is moderated by certain institutional factors.

The relationship between corporate social performance and business performance has been analyzed over several periods. Despite these efforts, the results are still ambiguous (Schnippering, 2020; MC Williams and Siegel, 2000). Over time, researchers have sought to identify the interdependence between CSR and business performance. However, most research on CSR reveals the influence of corporate philanthropy on market profitability and research shows that CSR can improve corporate profitability and market profitability (Blasi et al., 2018; Suteja et al., 2016 ; Ajide and Aderemi, 2014 ; Kempf and Osthoff, 2007). (Blasi et al., 2018) said that reducing financial risk through investment in almost all dimensions of CSR. The positive correlation between CSR isomorphism and CFP occurs in developed and developing countries where positive businesses generate higher profits (Cheung et al., 2010; Ilhan-Nas et al., 2015).

Socially responsible companies enjoy a competitive advantage because investors prefer to invest in companies with higher commitments (Ramasany et al., 2007). Today, more and more investors view operations and CSR as business goals (Smith, 2005). Perception is taken into account by senior management (Sturdivant and Ginter, 1977). This can be seen in sectors that are more customer-centric, such as banking, retail, telecommunications, and others,

because they have a greater tendency to be involved in corporate philanthropic businesses (Xie, 2015). In addition, increased involvement in corporate philanthropy can be leveraged for the benefit of companies (Maqbool and Zameer, 2018). The CSR-CFP relationship can be considered as a "circle" because higher CSR disclosure improves performance, as good social performance reduces the company's financial risk, which strengthens its commitment to CSR (Chollet dan Sandwidi, 2018).

## LITERATURE REVIEW

### CSR (Corporate Social Responsibility)

Hery (2013: 139) says that corporate social responsibility is the commitment of a company to make a long-term contribution to a particular problem in society or in order to create a better environment. According to Pearce and Rabinson translated by Kiroyan (2006: 54), corporate responsibility is the concept that a business also serves the social community and provides benefits to shareholders and must be sustainable so that in the end the leaders realize that the decision to implement corporate social responsibility is a very important decision in strategic planning.

There are two indicators that companies use to record their CSR activities. The first is the indicator implemented by GRI. GRI presents information in 79 information elements consisting of economic, environmental, and social indicators covering labor, human rights, social aspects and products. The second is Sembiring's production indicator which consists of 78 information that can be applied in Indonesia.

This is in accordance with BAPEPAM Regulation No. VIII G.2. the basis of the annual report and the suitability of its application in Indonesia. When disclosure includes indicators of environment, energy, workplace health and safety, other products, community involvement and general. This study uses CSR indicators implemented in Sembiring. Another researcher who uses CSR control indicators implemented by Sembiring is Ni Wayan Rustiarini (2010) with the research title The influence of corporate responsibility on the relationship between social responsibility and corporate value and financial performance.

### Financial Performance

Financial performance is the end result of activities that reflect the financial position and operating results of the company (Arif and Yanuar, 2009: 6). Brigham and Houston (2006: 44) say that financial statements are several sheets of paper with numbers written on them, but it is also important to think about the reality behind these numbers. Financial statements must be presented completely and adequately. The principle of full disclosure recognizes that the nature and quantity of information included in financial statements reflect valuation trade-offs. Some performance measurement ratios are ROE, ROA and PBV.

Return On Equity (Arief and Yanuar, 2009: 81) is a ratio that shows the rate of return of a company or all existing capital, ROE is also an indicator used by shareholders to measure the success of their company. According to Arief (2009: 71), return on assets is a ratio that measures the rate of return of a company on all existing assets. According to Sihombing (2008:95), Price to Book Value is a value that can be used to compare whether a stock is more expensive or cheaper than other stocks. To be able to compare, both companies must belong to a group of companies with the same commercial characteristics.

### Corporate Social Responsibility and Financial Performance

The analysis reveals that CSR can improve the company's financial performance. In

order to determine the financial performance of CSR by testing the performance of mutual funds through social responsibility. The performance of this mutual fund that can be socially responsible is a mutual fund that is realized by an investor. by involving entities committed to socially responsible activities that will gain profits competitively with others. Hill, Ainscough, Shank and Manullang (2007) explored the performance of socially responsible mutual funds in Asian, European and US countries by revealing positive and significantly influential returns in the three countries with a period of 10 years.

There is a basic reason that CSR can increase the value of the company's financial performance by means of the CSR screening process. An entity with strong CSR will receive a higher screening score and be safer in the event of a financial crisis or environmental distress. There are studies that reveal that CSR screening intensity has a significant influence on financial performance. Galema, Plantinga, and Scholtens (2008) found that employee relations scores have a positive and significant influence on excess returns. Kempt and Osthoff (2007) used Socially Responsible Investing (SRI) ratings from KLD Research and Analytics to compare stock portfolios with higher or lower SRI ratings and found that portfolios with higher ratings performed better than those with lower ratings. However, there are also some researchers who reveal that there is a loss of socially responsible performance in eroding the financial performance of the company (Barnett & Salamon, 2006). According to Freeman's (1984) stakeholder analysis, Cornell and Shapiro (1987), that csr companies should not necessarily serve their owners in realizing value maximization but aim as stakeholders to achieve potential value.

However, there are various stakeholders who often conflict. The theory shows that managers need to have a tug-of-war in taking into account all the interests of stakeholders in the company. Jensen (2002), revealed that in theory stakeholders can be increased by agency costs and can also be weakened by a company's internal control system, because performance measures are only vaguely defined. To be able to find out, there is a new way to measure the value, such as increasing the value of a company over a longer period of time can also solve this problem. Rennboong, Ter Horst and Zhang (200) argue that in running a socially responsible investment with managers can pursue their financial and social goals and are multi-focused, which can weaken an incentive for managers who hold funds to pursue returns that have been adjusted for high risk and can increase the potential cost of the agency. Barnea and Rubin (2010) revealed that a manager or stakeholder who is already affiliated with a company may want to make an excessive investment in CSR for personal interests that will improve the reputation for the better.

The interest group theory (McGuire et al., 1988) establishes the framework for the relationship between CSR and FP. Interest groups claim corporate resources, and thus implicitly demand good corporate actions, such as environmental considerations and fair employment relations. Companies that do not perform social responsibility can experience large costs and financial burdens that tend to lower their profits, leading to less socially conscious entities. In contrast, companies that generate more profits by adopting socially responsible policies will be incentivized to increase their investment in the sector. (Pava, 2008).

CSR and FP have always been linked, according to several studies (Cochran and Wood, 1984; Aupperle et al., 1985; McGuire et al., 1988; Waddock and Graves, 1997; McWilliams and Siegel, 2000; Orlitzky et al., 2003; Smith, 2003; Ortas et al., 2014); However, there are no clear findings explaining the correlation between the two, either positive or negative. This is due to a number of problems. These include research failures in measuring FP and CSR, lack of attention to significant latent variables when building models, lack of causality analysis, lack of rigor in methodology, and lack of theory underlying research

(Margolis and Walsh, 2003).

In contrast, Stanwick and Stanwick (1998) looked at studies investigating the impact of CSR on FP and found a weak, but positive, association. In addition, other authors (Wood and Jones, 1995; Akpınar et al., 2008) argue that variation in outcomes is due to the problem of "misalignment" of interest groups. Finding the key interest groups that are most important to the company is the way to solve them. In this regard, Alniacik et al. (2011) found that the desire to work in a company increased with positive information about corporate CSR. They also stated that purchase and investment intentions are increasing. Akpınar et al. (2008) answer the question of whether all interest groups have the same interests. The study, based on the theory of interest groups, found that the relationship was positive if CSR measurement took into account the relative interests of each interest group.

## METHODS

This research method is taken using the meta-analysis method, by combining and summarizing the results of previous research data to obtain conclusions and this research uses secondary data.

In this study, the topic is corporate social responsibility. The technique used in this research is by collecting data in the form of written documents using journals and books. The data analysis used is a qualitative descriptive data analysis that refers to the data from the narrative study of the research documents that have been found.

## RESULTS AND DISCUSSION

(Henriques et al, 1999; Hilman et al, 2001) in their research on the concept of corporate social responsibility revealed that all approaches used in the empirical literature have shortcomings that have the capacity to affect the bonds found between corporate social responsibility and financial performance. Two of these problems inherent in most, if not all approaches are researcher subjectivity and selection bias. We argue that a potential solution to the first problem is standardization of CSR reporting, while a potential solution to the second problem is mandatory disclosure of CSR information. Standardization and disclosure are not only beneficial for valid tests on CSR's relationship with FP but also many stakeholders when making economic decisions.

(Canh et al., 2022) In this study, CSR exposure in general was shown to have a negative effect on financial performance. Specifically, overall CSR will reduce ROA for the GMM System and fixed effects estimator. According to the slack resources theory, CSR activities require resources and this can lead to a decrease in ROA, at least in the short term. The negative impact of CSR is most evident in the category of environmental aspects, this could be due to the increased cost of environmental protection. This can be a heavy burden for other companies in developing countries. On the other hand, community-related CSR tends to increase ROA, and this may be due to its broad impact on relevant stakeholders and increased legitimacy. However, this positive impact is not as strong as indicated in the fixed effects estimation.

(Guangyou et al., 2021) in this study CSR will increase the financial burden of banks in a relatively short time, and negatively affect the financial performance of banks. However, in a relatively long period of time, or more precisely in the next year, CSR is likely to provide multiple additional rewards for banking stakeholders. For example, it will increase the disclosure of information provided and decrease the bank's environmental risk. This will increase the bank's financial performance. As a moderating variable, green credit can increase the effect of CSR on bank financial performance. Second, bank social responsibility has a negative and significant influence on the ability of growth, profitability and risk control. The

results obtained that green credit can significantly reduce the existence of a negative relationship between bank social responsibility and growth ability and risk control. Finally, this study further conducts a series of heterogeneity tests including trait and period heterogeneity.

(Lin Lin et al., 2018) In this study, using data that has been managed by CSR to test the relationship between CSR dimensions and stock returns, book-to-market ratio and Tobin's Q for companies listed in Taiwan. The results of this study have three implications, first from the perspective of stock returns by observing community development and philanthropy is positive while the product subcategory is negative. Second, from the BM perspective, observing that product and management resources tend to be valued by companies with higher BM in value companies, while growth companies tend to value diversity and labor rights. Third, from a Tobin's Q perspective, it shows a consistent and positive effect on Tobin's Q, while the opposite effect is seen in subcategories under ENV. The results suggest that CSR policies or practices in the area of labor can have a signaling effect in differentiating the quality of firms in emerging Asian countries, at least in more developed emerging Asian markets such as Taiwan, and investors value these attributes and pay a premium to firms.

(Safat et al., 2017) in this study, has important implications for strategic managers. First, reviewing the impact of CSR on firm performance, companies must ensure adequate attention to their social responsibility. CSR is not allowed to be treated as an optional activity, it should be integrated with business strategy for a relatively long time. If CSR is accurately integrated into business operations, social and financial goals become easier and obtain better financial performance. Therefore, managers of companies that do not practice CSR should make it a core business function for business performance for a long time. Second, the financial basis of CSR gives it a strategic position in the business world. If it has a positive impact, CSR will be adopted as an idea of its own accord and not because of legislative coercion. In fact, requiring business entities is meaningless if they will respond to and go beyond the requirements of the law. Therefore, the underlying assumption of financial results will be useful for a long time to move business entities beyond regulatory compliance.

Based on the research found by (M.Adnan et al., 2022) stated that it did not obtain a causal relationship from two directions between CSR and CFP. In addition, CFP has an element of influence on CSR, but CSR does not affect CFP. More specifically, CFP has a quadratic effect on CSR. This study is further extended by investigating the determinants of CSR. The findings show that NI, ROA, and TD have significant positive effects on CSR spending and contingent business ethics take precedence over financial motivations. It is evident from the causal relationship between CSR and CFP that CFP increases CSR, but CSR has no effect on CFP. Therefore, banks look at their financial health in determining CSR spending but do not necessarily get financial rewards from it. Bank maturity (MAT), on the other hand, has a statistically significant inverse relationship with CSR. Overall, consistent with previous literature, the results suggest a general positive relationship between CSR and financial performance, with the exception of MAT and EPS. In addition to financial performance which may be a determinant of CSR spending, banks also use their past CSR engagement as a reference in determining their current CSR engagement. More specifically, this study finds that the previous year's CSR has an inducing effect on the current year's CSR expenditure as the CSR expenditure of listed banks in Bangladesh follows a first-degree autoregressive process. The overall empirical estimates of this study are generally in line with the theoretical predictions.

## CONCLUSION

From the explanation above, it can be concluded that Corporate Social Responsibility

(CSR) has an influence on the company's financial performance. However, the results of existing studies show that there are differences of opinion regarding the positive and negative effects of CSR on financial performance. Some studies reveal a positive impact, while others reveal a negative or even insignificant impact. The importance of conveying CSR information in a company's financial statements has also been highlighted. CSR disclosure can improve financial performance if it is done sincerely and provides information that meets stakeholder expectations.

Thus, conveying CSR disclosed or only for the presentation of interests can negatively impact the company's reputation. Overall, this study shows that well-managed CSR can benefit companies in the long run by involving all stakeholders in a fair and transparent manner.

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