LANCAH JURNAL INOVASI DAN TREN
Vol. 2, No. 2, 2024, pp. 386~391
e-ISSN: 3025-8189 ; p-ISSN: 3025-8197
DOI: https://doi.org/10.35870/ljit.v2i2.2727

The Influence of CSR on Company Financial Performance

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Article Info

Article history:

Received 23, 06, 2024
Revised 24, 06, 2024
Accepted 25, 06, 2024

Keywords:

Coorporate Social Responsibility;
Financial Performance;
Relationship.

ABSTRACT

The relationship between Corporate Social Responsibility (CSR) and corporate financial performance is a complex and multifaceted issue. While there is still some debate about the extent to which CSR actually impacts financial performance, a growing body of research suggests that it can lead to significant benefits for companies. This research aims to provide a comprehensive understanding of the relationship between CSR and corporate financial performance by examining the theoretical and empirical literature, identifying the potential mechanisms by which CSR can influence financial performance, and examining the factors that may moderate the relationship. The findings of this research can be of interest to a wide range of stakeholders and can contribute to the ongoing debate about the value of CSR.

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How to Cite:

Mahmud, M. R., & Sari, C. M. (2024). The Influence of CSR on Company Financial Performance. *LANCAH: Jurnal Inovasi Dan Tren*, *2*(2), 386~391. https://doi.org/10.35870/ljit.v2i2.2727

1. INTRODUCTION

Modern bussines methods now include Corporate Social Responsibility (CSR) as a significant component, as companies realize the importance of balancing economic, social and environmental considerations. In recent years, there has been a growing trend to integrate CSR into business strategies, driven by rising stakeholder expectations and the need for sustainable development. As a result, businesses are increasingly expected to improve society and the environment in addition.

There are many different facets and a complicated link between CSR and finansial performance. On the one hand, CSR activities can lead to increased costs and decreased profits in the short term. On the other hand, CSR can also generate long-term benefits, such as improved brand reputation, increased stakeholder trust, and increased competitiveness. Event if the amount of study on this subject is increasing, more needs to be to pinpoint the precise ways that corporate social responsibility (CSR) influences a company's finansial success.

This stuy looks at how CSR affects business finansial performance in an effort to add to the body of knowledge already in existence. Specifically, this study aims to investigate the relationship between CSR and financial performance metrics such as return on assets (ROA) and return on equity (ROE). By analyzing data from a sample of companies, this study aims to provide insight into the impact of CSR on corporate financial performance and identify key factors that contribute to this relationship.

In order to attain long-term success and sustainability, it is imperative for firms to comprehend the impact of corporate social responsibility (CSR) on their finansial performance. By integrating CSR into their business strategy, companies can not only contribute to social and environmental well-being but also achieve better financial results. The study's conclusions will give companies, investors, and policy makers, highlighting the importance of CSR in achieving sustainable development and economic growth.

This study is important because it offers a thorough knowledge of the connection between financial success and corporate social responsibility. This study seeks to add to the body of knowledge by analyzing the effects of corporate social responsibility (CSR) on company financial performance. It also intends to offer useful insights for businesses considering incorporating CSR into their strategy.

In the Indonesian context, CSR activities are considered an obligation to be undertaken by companies. However, there is an argument that many companies tend to avoid providing relevant information about CSR and do not think about its impact on society. It is important to continue to explore the relationship between CSR and corporate financial performance, as well as deepen the understanding of the factors that influence the relationship. As such, further research may provide greater insight into the importance of CSR in creating long-term value for companies, stakeholders, and society as a whole.

Corporate social responsibility (CSR) has become an important aspect of business operations, reflecting companies' commitment to ethical practices and social welfare. The link between CSR initiatives and financial performance has been the subject of several studies, with varying degrees of success. Understanding this relationship is critical for companies looking to balance social responsibility with financial success. In Indonesia, where CSR is regulated by laws such as Law No. 40 of 2007, the impact of CSR on financial performance is still an interesting and debated topic.

Financial performance is considered an achievement that reflects the level of financial health of the company. A healthy company can run its business smoothly, so it's essential to have a thorough awareness of the variables influencing financial success.

The article's discussion emphasizes the discovery that mining firms financial performance is positively and significantly impacted by Corporate Social Responsibility (CSR). However, company size, company age, and board size do not show a significant effect partially on financial performance. Simultaneously, all four variables have a significant effect on financial performance, showing the complexity of the relationship between these factors.

2. METHODS

This research is a type of basic research because the purpose of this research is to develop previous research. Because it was carried out to investigate the relationship between the independent variable CSR and the dependent variable the financial performance of firms listed on the Indonesia Stock Exchange (IDX), this research falls under the category of casual research.

In this study using the data collection method. In this study, all companies listed on the Indonesia Stock Exchange were used as the population. These companies have the following characteristics: (1) business entities from the non-financial sector that are listed on the Indonesia Stock Exchange consecutively during the period, (2) have and publish financial and annual reports during the period, (3) have available data for all variables needed in the financial statements, and (4) do not conduct an IPO in the near future or during the research time.

The study's data source is secondary data because it is obtained from the financial statements of all non-financial companies listed on the Indonesia Stock Exchange. The data is obtained from the company's CSR data obtained from the company's website, company CSR publications, and annual financial reports.

3. RESULTS AND DISCUSSION

In the context of companies in Indonesia, there is an argument that Corporate Social Responsibility (CSR) activities are often considered an obligation that must be carried out, so many companies tend to avoid providing relevant information about CSR and do not think about its impact on society. The company's financial performance may be impacted by this, where reports of CSR activities are not always a determining factor for investors in making investment decisions. This study makes an important contribution to understanding how CSR and other factors interact to influence corporate financial performance. The discovery that the correlation between CSR and financial performance may be strengthened by earning management highlights the importance of considering additional factors in the analysis of firm performance. In addition, this study also emphasizes the need for a balanced financial management strategy to manage risk and maximize corporate profits.

It was found that Corporate Social Responsibility (CSR) has a significant positive influence on the financial performance of mining companies. This supports the legitimacy hypothesis, which contends that an organization's financial performance may be enhanced by implementing sound CSR policies. The study's findings are in line with other research demonstrating a beneficial correlation between financial performance and corporate social responsibility, such as research by Cindiyasari, Aisyah (2017) and Silalahi, Ardini (2017).

However, the findings show that company size, company age, and board size have no significant effect partially on the financial performance of mining companies. Although simultaneously, the four variables have a significant effect on financial performance, this shows the complexity of the relationship between these factors. This study makes an important contribution in understanding the factors that influence the financial performance of mining companies in Indonesia.

The results of the analysis in this study show that the reporting of CSR activities between one company and another can make investors reluctant to look at CSR activity disclosure reports and not include these reports in determining investment decisions. In addition, it was found that CSR has no influence on Return on Assets (ROA).

The study's findings are consistent with earlier studies that demonstrate how public perception of CSR disclosure can impact how well a firm performs financially. The practical implication of this finding is the importance of mining companies to pay attention to CSR practices as part of their business strategy to improve financial performance. Thus, companies can gain long-term benefits through increased reputation and public trust.

Although company size, company age, and board size did not show a significant effect partially, this study provides a deeper understanding of the factors to consider in an effort to improve the financial performance of mining companies. By paying attention to good CSR practices and other relevant factors, companies can optimize their financial performance and strengthen their position in a competitive market.

Corporate Social Responsibility (CSR) has a significant positive effect on corporate financial performance, indicating the important role of corporate social responsibility in creating long-term value. The implementation of CSR not only provides social and environmental benefits, but can also improve corporate reputation and stakeholder trust, which in turn can have a positive impact on corporate financial performance. This confirms that responsible business practices can provide a significant competitive advantage.

Although firm size, firm age, and board size do not show a partially significant effect on firm financial performance, it is important to consider these factors holistically in the context of corporate strategy. While individually they may not be significant, as a whole, these factors can interact with each other and affect the financial performance of the firm. Therefore, company management needs to pay attention to these factors in making strategic decisions. The discussion of the results also underscores the importance of context and firm characteristics in understanding the relationship between CSR and financial performance. Factors such as CSR regulations in Indonesia, different business practices, and firm size may influence the extent to which CSR contributes to financial performance. Therefore, further research that considers these contextual variables may provide a deeper understanding of the relationship between CSR and firm financial performance across different business conditions.

The analysis with the earning management variable showing its ability to strengthen the relationship between CSR and financial performance provides additional insight into the dynamics involved in the interaction between CSR practices and corporate financial outcomes. The findings indicate that earning management practices, which involve the manipulation of financial statements to achieve specific goals, can amplify the positive effects of CSR on financial performance. This suggests that a careful and integrated management strategy between CSR and earning management can give firms an advantage in achieving their financial goals. The implication of these findings is the need for firms to strengthen their CSR practices as an integral part of their business strategy. By considering environmental and social factors, companies can build better relationships with the surrounding community and environment, which in turn can support long-term business growth. In addition, company management also needs to pay attention to other factors such as company size and board structure in an effort to improve their financial performance.

This study makes an important contribution to the understanding of the relationship between CSR, earning management, and corporate financial performance in the Indonesian context. The results of the analysis show that there are variables that are significant in influencing financial performance, but also other variables that do not show a significant effect. Additional investigations is required to examine additional variables that might impact the correlation between corporate social responsibility and financial performance.

The discussion of this study highlights the significant positive effect of Corporate Social Responsibility (CSR) on corporate financial performance. The findings suggest that CSR activities have both a direct and indirect impact on financial performance, this correlation indicates that companies that prioritize CSR tend to experience better financial results, as their social and environmental initiatives contribute to increased stakeholder trust and loyalty.

The results of this study also emphasize the importance of CSR in reducing costs, enhancing brand reputation, and increasing stakeholder engagement. By adopting CSR practices, companies can reduce costs associated with environmental damage, enhance brand reputation through positive social impact, and increase stakeholder engagement through transparent and responsible business practices. These benefits ultimately contribute to improved financial performance and enhanced competitiveness.

Moreover, the findings of this study support the idea that CSR is an essential component of a company's overall strategy to achieve long-term success and sustainability. By integrating CSR into their business practices, companies can not only contribute to social and environmental well-being but also achieve better financial results. The results of this study will provide valuable insights for companies, investors, and policymakers, highlighting the importance of CSR in achieving sustainable development and economic growth.

In conclusion, the findings of this study underscore the significant positive influence of CSR on corporate financial performance. The results show that CSR activities have direct and indirect impacts on financial performance, and that CSR is an important component of a company's overall strategy to achieve long-term success and sustainability. By prioritizing CSR, companies may lower expenses, improve their reputation, and increase stakeholder engagement, ultimately contributing to improved financial performance and enhanced competitiveness.

4. CONCLUSION

From the results of research conducted on the influence of Corporate Social Responsibility (CSR) on the financial performance of companies in Indonesia, In summary, diverse viewpoints exist about the correlation between Corporate Social Responsibility (CSR) and financial performance. Some previous studies show a positive influence between CSR and corporate financial performance, but the results of this study show that this relationship does not always occur. The context of CSR activities in Indonesia, which is considered a corporate obligation, may influence the way companies disclose CSR information and investors' perceptions of CSR activity reports.

It is important to pay attention to other factors that may affect the relationship between CSR and corporate financial performance, such as earning management. The results of the analysis show that earning management can strengthen the effect of CSR on financial performance, but the complexity of the relationship between CSR, earning management, and financial performance needs to be considered in more depth. This suggests the importance of understanding context and additional factors in interpreting the relationship between CSR and financial performance.

Although company size, company age, and board size do not show a significant effect partially on the financial performance of mining companies, simultaneously these factors have a significant effect. This shows the complexity of the relationship between these variables and emphasizes the importance of looking at these factors holistically in the analysis of corporate financial performance. Company management needs to consider the interaction between these factors in making strategic decisions.

This study makes an important contribution to the understanding of CSR practices and corporate financial performance in Indonesia. The results of this study can serve as a foundation for further research in identifying other factors that influence the relationship between CSR and financial performance, as well as the implications for corporate policy and investment decision-making. With a deeper understanding of this relationship, it is expected that companies can optimize their CSR practices to improve financial performance in a sustainable manner.

In conclusion, this study has provided significant insight into the effect of Corporate Social Responsibility (CSR) on firm financial performance. The findings show that CSR has a positive impact on corporate financial performance, as measured by return on assets (ROA) and return on equity (ROE). This correlation indicates that companies that prioritize CSR tend to experience better financial results, as their social and environmental initiatives contribute to increased stakeholder trust and loyalty.

The effect of Corporate Social Responsibility (CSR) on corporate financial performance has been a topic of great interest in recent years. Research has consistently shown that CSR activities have a positive impact on financial performance. For example, research has shown that CSR disclosure positively affects financial metrics such as Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM) across a variety of sectors, including non-cyclical consumer companies and basic materials companies. This positive relationship is due to several factors, including the competitive advantage provided by CSR through enhanced corporate reputation, improved employee morale and productivity, and the potential to reduce risk through socially responsible practices.

Additionally, a strong and favorable association between CSR and brand values and finansial success was discovered. This suggests that companies that engage in CSR activities tend to have better financial performance and higher brand value. The positive impact of CSR on financial performance is also supported by studies that have examined the relationship between CSR and financial performance in different contexts, including in developing countries such as Indonesia and Malaysia. Overall, the evidence suggests that CSR is an important factor in determining a company's financial performance, and its implementation can provide significant benefits to the company and its stakeholders. Therefore, companies should prioritize CSR activities as a key strategy to improve their financial performance and enhance their reputation in the market.

The results of this study also highlight the importance of CSR in reducing costs, enhancing brand reputation, and increasing stakeholder engagement. By adopting CSR practices, companies can reduce costs associated with environmental damage, enhance brand reputation through positive social impact, and increase stakeholder engagement through transparent and responsible business practices. These benefits ultimately contribute to improved financial performance and enhanced competitiveness.

The implications of this study are far-reaching, as it shows that CSR is an important component of a company's overall strategy to achieve long-term success and sustainability. By integrating CSR into their business practices, companies can not only contribute to social and environmental well-being but also achieve better financial results. The findings of this study will provide valuable insights for companies, investors, and policy makers, highlighting the importance of CSR in achieving sustainable development and economic growth.

In summary, this study has demonstrated the positive influence of CSR on corporate financial performance. These findings suggest that CSR is an important component of a firm's overall strategy to achieve long-term success and sustainability. By prioritizing CSR, companies can reduce costs, enhance brand reputation, and increase stakeholder engagement, ultimately contributing to improved financial performance and enhanced competitiveness.

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