

# The Impact of Implementing Corporate Social Responsibility(CSR) on Company Financial Performance

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## Abstract

Study This aim For know impact application of Corporate Social Responsibility (CSR) to the Company's Financial Performance by method compare or use meta- analysis method from a number of journal international with topic The impact of Corporate Social Responsibility(CSR) on Financial Performance . The results we got from journals the there is difference results or opinion as well as variables used , there are positive , negative correlation or No There is correlation about impact Corporate Social Responsibility(CSR) to performance finance . Corporate Social Responsibility itself that is form not quite enough answer company to environment social must carried out by the company , meanwhile performance finance is a description of the condition finance company or ability company in manage finance company.

Keywords: Corporate Social Responsibility, Financial Performance.

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## 1. Introduction

Considering that companies and business entities are the core of the economic sector, they cannot be separated from business activities and business entities. In the business world, over time a view has emerged that not only talks about profits and production activities, but also that the social environment is an important part in the economic development of a company. The emergence of awareness that a company's production activities indirectly have a negative impact on the social and physical environment around the location of production activities, makes companies feel it is important to carry out social activities. This social activity is used as an activity that can be considered important for the company. Activity social This often called with Corporate Social Responsibility or not quite enough answer social company .

It is no longer relevant to make economic decisions based solely on the company's financial performance. Eipstein and Freedman (1994), say that Individual investors are more interested in annual social information reports. For this reason, a document is needed who have the ability to provide information regarding social, environmental and financial elements simultaneously. This facility is known as a sustainability report.

Sustainability reporting is a method for measuring, disclosing, and taking responsibility for an organization's performance efforts to achieve sustainable growth goals for internal and external stakeholders. Sustainability Report is a synonym or other term that describes reports regarding economic, environmental and social impacts (Rocio, 2012).

Corporate Social Responsibility is a sustainability reporting document that contains information about the company's social, environmental and financial aspects as well as matters that cannot be explained implicitly just by using the company's financial reports. Apart from that, in Corporate Social Responsibility there is also information that explains aspects of economic, environmental, employment, human rights, social and product responsibility (Menezes, 2019).

Nowadays, companies are increasingly emphasizing corporate social and environmental responsibility. Corporate social responsibility is a prerequisite for all companies to operate in accordance with ethical and good management principles and helps companies gain approval from governments, local communities and relevant stakeholders. All companies have a responsibility to society and the environment, both inside and outside the organization, to ensure sustainable development. The foundation of a good and trustworthy company is the obligation to make a profit while still obeying the law. Corporate Social Responsibility is increasingly be the organizational strategy used, because it provides benefits to business by proving trustworthiness and improving public perception. In the long term, these benefits will help the company to gain a larger labor market share. Companies that are considered to have a high level of social responsibility may face fewer labor problems or customers may prefer their products (Judita, 2022).

On the other hand, companies can improve their reputation through social responsibility activities and relationships with bankers, investors and government officials. Improved relations with them will likely result in economic benefits. Although there is understanding about benefit implementation of Corporate Social

Responsibility, however effectiveness of Corporate Social Responsibility in form performance finance company Still questioned . A number of study find correlation positive between Corporate Social Responsibility and performance company , which shows that Corporate Social Responsibility practices improve performance business .

A number of study mention at least there are two weaknesses in implementation of Corporate Social Responsibility. The first weakness in the implementation of Corporate Social Responsibility is company implementing Corporate Social Responsibility with programs that are very diverse and driven by demand society , where a Corporate Social Responsibility program should be implemented designed connection with business strategy company . As a consequence , Corporate Social Responsibility becomes costs budgeted by management company . Second , generally Corporate Social Responsibility is carried out No complete , no capable finish problems and Corporate Social Responsibility precisely add dependency public to company . Research purposes This that is For know is There is impact from implementation of Corporate Social Responsibility towards performance finance company .

## **2. Method**

Lots of research previously investigated connection between Corporate Social Responsibility practices and performance finance company find different results . This type of research uses a meta-analysis approach to synthesize findings from five international journals that are relevant to the keyword "Corporate Social Responsibility". The literature search process was carried out thoroughly through leading academic databases such as Science Direct, Emerald, and Taylorandfrancis, with an emphasis on publications covering aspects of Corporate Social Responsibility. In this research, we began the process of identifying research related to the Impact of Corporate Social Responsibility Implementation on Company Financial Performance, by conducting searches in several journals via Google Scholar. We conducted research with the aim of finding out the content and shortcomings of research between one country and another regarding the impact of implementing Corporate Social Responsibility on company financial performance and providing conclusions at the end of the research.

Data from the five journals was then analyzed qualitatively using a descriptive approach by highlighting patterns, themes and relationships that emerged from the literature. Based on the analysis we carried out, we can draw conclusions about the relationship between the variables studied, namely ROA, ROE and NPM, with Corporate Social Responsibility. Apart from that, this research also provides additional information regarding other factors that might influence a company's financial performance, such as government policy, technological advances, and environmental sustainability. Thus, the meta-analysis method in this context provides a deeper and more comprehensive understanding of the factors that influence a company's financial performance. Apart from for find results about The impact of Corporate Social Responsibility on performance finance , on methods We also understand this problem or differences in results research taking place consequence difference variables used .

## **3. Results and Discussion**

Based on meta- analysis methods that we have created and understood in study this , we found gap For give statement about impact implementation of Corporate Social Responsibility towards performance finance company . Study Related Impact Implementation of Corporate Social Responsibility, researcher find difference opinion between a number of results study from five journals the . Researchers will too explain if there is lack or weakness in fifth journal the .

Researcher use or conduct a meta- analysis to five journals international that we found from Google Scholar with title. then we found results in accordance with what we have researched , that there is the journal says that there is correlation or connection positive regarding Corporate Social Responsibility towards performance finance company . But on the other hand there is the journal says No exists connection or negative impact of Corporate Social Responsibility on performance finances company or even there is one opinionated journal own correlation positive , negative or that No There is correlation or relationship , however the reasons are also explained what influences There is or No exists correlation the .

There is a negative relationship between Corporate Social Responsibility activities with performance financially , there are also impacts positive from Corporate Social Responsibility(CSR) activities with financial performance , emphasized that Corporate Social Responsibility activities , which include claim implicit from all over holder legitimate interests , and exist the results are telling No There is connection special between Corporate Social Responsibility activities with performance finance . Here We can know that the influence of Corporate Social Responsibility on performance Finance is very diverse . There is results the researcher

concluded that not quite enough answer social company No influential to performance finance company , In the journal this is more principal important objective maximizing riches company than objective profitability company . There is impact significant positive from awards and Corporate Social Responsibility activities towards performance finance company .

According to , (Nadeem Iqbal, Naveed Ahmad, Nauman Ahmad Basheer) According to aggregate , results study they conclude that not quite enough answer social the company (Corporate Social Responsibility) does not influential to performance finance (CFP). From the results the seen clear that Corporate Social Responsibility has an influence negative to stock market value However No there is significant relationship to firm D/E behavior . Besides that . However based on analysis in a way overall , yes said that connection between Corporate Social Responsibility and performance finance is false as concluded by Orlitzki ( 2000 ) .

Conclusion according to research (Chin-Huang Lin and Friends,2009) shows necessity move study not quite enough answer social from connection bivariate to approach more detail wide . As a moderator, considering the complexity and dynamism of the environment is an important starting point that can help you understand its importance. and unresolved research problem. Much empirical evidence shows that investment in research and development increases profitability. We discovered this after examining it against five specific financial metrics. Corporate responsibility has the benefit of increasing reputation and loyalty, as well as financial performance and company value. There is correlation negative significant Corporate Social Responsibility expenditure , and correlation positive activity Corporate Social Responsibility and performance finance company . Research result This explain connection between CSR performance with performance company , Research results This different with report previously ( Muttanachai Suttipun and friends, 2021).

Hossein Khanifar, 2012. Based on Friedman's point of view (1970), found a negative relationship between measured financial performance and corporate social responsibility activities, for example by changes in stock prices, excess returns, or estimated stock earnings . per analyst. (2) Regarding the positive impact of the company's Corporate Social Responsibility activities on financial performance. asserts that Corporate Social Responsibility activities, which includes the implicit assumption of stakeholder theory that all legitimate stakeholders can increase the value of the company by (1) direct cost savings, (2) increased corporate reputation, and (3) preventive actions in the future. dealing with regulatory bodies including governments that may impose large costs on companies. (3) does not support the existence of a special relationship between Corporate Social Responsibility activities and financial performance.

The main findings in the journal according to (Lakshmi Das, Amalendu Bhunia, 2016) are that most of this research reveals the positive impact of Corporate Social Responsibility on financial performance, some studies reveal a negative relationship between the two and several studies show mixed results. This research also shows that several studies show a positive impact of Corporate Social Responsibility on financial performance, but the relationship between the two is not significant. The results of these studies vary due to various reasons, namely data types, variables, statistical techniques, etc.

### **Corporate Social Responsibility and Financial Performance**

Corporate Social Responsibility can defined in a way wide as activities that create company become good and giving citizen contribution to public welfare . During a number of decade Lastly , various aspects of Corporate Social Responsibility have become subject study in literature academics and business, and according to the structure created by Schwartz and Carroll (2003), the fields of economics, law, and ethics can symbolized as the most common components from Corporate Social Responsibility. One of interesting aspects of Corporate Social Responsibility for Lots economist finance is the economic domain : impact CSR finance for companies looking for profit .

CSR includes business activities that benefit society and improve community welfare.

Over the past few decades, CSR has been discussed in business and academic literature. According to the structure created by Schwartz and Carroll (2003), CSR consists of three main components: financial, legal, and ethical. Economic conditions, among other things, are very important for economists and economists who want to understand how social responsibility affects financial performance, especially for companies that adhere to the principle of economic interests. Initially, people were concerned that CSR spending would reduce profitability and increase costs without generating comparative advantage. However, research shows that strategically managed CSR initiatives can provide significant results in the long term. Better brand reputation, greater customer loyalty, possibly lower operational risks and better access.

Thus, programs that encourage ethical work practices and social development will increase employee productivity and customer trust, thereby enabling sustainable growth. Incorporating responsibility into business strategy can also increase competitiveness and sustainability in the market by driving innovation and efficiency. Companies can improve governance, reduce legal risks, and manage stakeholder expectations by actively responding to social and environmental challenges. Initially CSR programs focused on ethical aspects, but

now the economic impact is starting to be seen. Companies that strategically integrate CSR into their business goals can build profitable relationships with shareholders, demonstrating that CSR behavior is not only a gift, but also an important part of financial success in the environment.

### **Corporate Social Responsibility Activities Influence Financial Performance.**

A growing body of literature focuses on stakeholder-oriented benefits board can provide to Corporate Social Responsibility Performance. A company's board of directors can establish a Corporate Social Responsibility committee to oversee aspects such as strategies for delivering social and environmental responsibility. It can be seen from these five journals that Corporate Social Responsibility activities in companies have an influence on financial performance, although there are several researchers who have produced research that has no effect, but it is also explained there why there is no such influence.

Regarding corporate social responsibility, there are three statements in the literature. activities and performance, especially financial performance. The first group, based on the views of Friedman (1970), combines corporate social responsibility activities with predicting something, for example changes in stock prices (Vance, 1975), excess profits (Wright and Ferris, 1997), or others. Earnings per share analyst (Cordeiro and Sarkis, 1997). Mr. Friedman explained that management is elected by shareholders as their representatives, and They are tasked with prioritizing the interests of shareholders. Friedman argued that the only social obligation is to utilize a company's resources to increase the income and wealth of its owners. is the goal of a company. Any other action that hinders the effective allocation of scarce resources for other purposes will have a negative impact on the company's performance.

Furthermore, others argue that Corporate Social Responsibility activities have a positive effect on financial performance (Arago'n-Correa et al., 2008). Based on stakeholder theory (Freeman, 1984), this group's assertion proposes that companies must consider matters in their decision making and actions beyond just shareholders; instead, it must consider other people who have interests, such as consumers, employees, suppliers and society. The second group states that corporate social responsibility is, which include the implicit claims of all legitimate stakeholders as proposed by stakeholder theory, can increase corporate value by (1) direct cost savings, (2) increasing corporate reputation (Bird et al., 2007).

Not everyone agrees or has their own opinion, for example, from the third group they agree that there is a special relationship between Corporate Social Responsibility (CSR) activities and financial performance (Abbott and Monsen, 1979; Alexander and Buchholz, 1978; Aupperle et al., 1985 ; Teoh et al., 1999), but some people believe that there is too strong a relationship between the two. factors that raise doubts for researchers to find a specific impact of corporate social responsibility on company performance.

### **Discussion**

This research examines and explains or compares five journals regarding the impact of implementing corporate social responsibility (CSR) on company financial performance. From these five journals, it can be seen that there are several differences in the variables used by researchers in these journals regarding the impact of Corporate Social Responsibility (CSR) on company financial performance. In our opinion, there are journals that use CSR, ROA and ROE variables which produce a negative correlation with Corporate Social Responsibility, ROE with a significance of -0.069 and ROA of -0.352. So it can be said that the relationship between CSR and financial performance is negative and has no effect.

However, there are also those who use the ROA and Corporate Social Responsibility variables and produce a positive correlation. Apart from these variables, the research journal uses the variables Corporate Social Responsibility, awards, activities on financial performance, and uses the variables liquidity, financial leverage, fund size, company size, net profit margin which have a positive relationship with Corporate Social Responsibility but there are also those that has a positive relationship with Corporate Social Responsibility. ROA variable which has a negative relationship.

There are five dimensions of corporate social responsibility: environmental, social, economic, stakeholder, and volunteerism. This is a frequently used definition that includes all five dimensions and states that Corporate Social Responsibility is a concep where companies integrate social and environmental issues in business operations as well as voluntary stakeholder interaction (European Community, 2001). Apart from that, in detail the meaning of Corporate Social Responsibility has to do with transparency, stakeholders and sustainability of reporting, namely communication. Social Responsibility will be useful for valid testing.

Bowen (1953) explains that by saying the concept of corporate social responsibility emphasizes that, Business exists for the happiness of society and that its operations and behavior must conform to the rules of society and Business acts as a moral agent in society. According to Davis, 1975, social responsibility is also considered the result and obligation of unprecedented corporate social forces (such as taxpayers, recruiters, etc.). Ultimately, an imbalance between social power and social responsibility can lead to a loss of this power, which

in turn leads to the decline of the firm (Davis, 1975). Another view considers social responsibility as a contractual obligation that a company has towards society (Donaldson, 1983).

Corporate Social Responsibility is considered a significant cost, and companies that have performed well financially in the past may be better equipped to bear this burden in the future. Additionally, companies that have poor financial performance are expected to pursue faster returns, and as a result, companies that have poor financial performance are expected to prioritize short-term, high-yield investments over investments that are uncertain and usually long-lasting.

Corporate Social Responsibility when viewed from a theory or legitimacy perspective, CSR also expresses the awareness and relationship between society and the company. A company must continuously evaluate themselves to ensure that their activities are acceptable and meet society's expectations which continue to change with the times. Therefore, CSR information is a strategic management asset for companies that seek to carry out good activities to convince the public that they have complied with the rules of social society.

#### 4. Conclusion

The conclusion from our research above is that companies are now increasingly focusing on social and environmental responsibility (Corporate Social Responsibility) as an important part of ethical and well-managed business operations. Corporate Social Responsibility helps companies gain support from the government, society and stakeholders, as well as increasing company trust and public image. Although many understand the benefits of Corporate Social Responsibility, its effectiveness in improving a company's financial performance is still debated. Several studies (from five journals) show a positive correlation between Corporate Social Responsibility and company performance, but the results are not always consistent, but there are also researchers who say the correlation is negative, but based on reasons, some even conclude there is no relationship. There are different views regarding the impact of Corporate Social Responsibility, where the neoclassical economic approach considers Corporate Social Responsibility as a cost burden that reduces company performance, while the moral philosophy model sees corporate responsibility as also including the welfare of society.

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