

The relationship between Corporate Social Responsibility (CSR) and financial performance in a company

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Abstract

Corporate financial performance, or CFP, and corporate social responsibility are linked concepts. CSR enhances employee productivity and fosters collaboration among peers. Financial performance and corporate social responsibility have a favorable correlation. Depending on whether there was a good or negative association between CSR and financial success, we may draw conclusions from our investigation's findings. We selected, aggregated, perused five papers titled "CSR relationship with financial performance from different countries," and conducted tests on several samples. A type of corporate social responsibility for their commercial endeavors is called CSR. An association called CSR exists for businesses that put their CSR systems into place. By using CSR, businesses may set themselves apart from their rivals. Although not all businesses in the globe use or even adopt CSR for their commercial operations, corporations nowadays will understand how crucial it is for a company. The study's conclusions indicate that corporate social responsibility, or CSR, improves a business's bottom line. Companies that participate in CSR get more revenue and assets. However, other studies contend that there is no positive relationship between a business's profitability and its commitment to corporate social responsibility. Future researchers can use this study's methodology to evaluate the connection between a business's financial performance and corporate social responsibility (CSR).

Keywords: Corporate Social Responsibility (CSR), Financial Performance, profitabilitas.

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1. Introduction

In this day and age, the pollution caused by companies is very troubling for society and has an impact on environmental pollution. Therefore, companies today must be aware of how important it is to protect the environment around the company resulting from business activities. The community and consumers have great expectations for the company so that the company not only produces goods but must still maintain the company's environment. Currently, the company does a lot of business activities but ignores the pollution caused by the business process, even the company is now not active in managing the waste produced. Therefore, it is important for a company to have a management information system that is precise, accurate, efficient, and strong.

Effective information systems and competent management are implemented with strategic business implementation in a company, namely CSR. CSR is a form of business strategy that is responsible for social and environmental impacts. A company to experience sustainable growth through the existence of a trust, then the company maintains good relations with various stakeholders and even the community around the company stands. The better a company's relationship with stakeholders and even the community has a great opportunity to grow and be sustainable.

Implementing a corporate social responsibility initiative, like enhancing a business's financial performance, may boost a business's profitability. The success of CSR has an impact on employees so that they get a sense of comfort when working so that employees have the motivation to develop the company to continue to move forward. With the CSR program, employees have a loyal and motivated nature to work in a company that cares about the company's environment so as to make employees comfortable so that they work with ethos and employee productivity. Employee work ethic and employee productivity can bring the company more developed. A company's financial performance may be assessed using a variety of techniques, one of which being the one that's most frequently used to do so: calculating ROA and ROE.

Businesses should consider the effects of their operations in addition to just making a profit. (Roberts, 1992) is becoming more and more significant as it gives the business organizational value by enabling it to stand out from the competition. Advocates of corporate social responsibility, or CSR for short, suggest that companies may benefit from developing and putting into practice CSR policies.

When CSR is viewed from a strategic perspective, to strategize a CSR business has stages, namely having to adjust the company's vision and mission, find issues that occur in the consumer environment, determine targets, find opportunities, and measure the company's profits from CSR activities. Currently, the company is

assessed not only from finance but also whether the company can survive and continue to grow. Companies that consider environmental and social aspects will have sustainable corporate prospects. Companies that are committed to the corporate and social environment have experienced resistance from the community and even consumers gradually.

Considering the background's description of the issues, more investigation is necessary to determine whether corporate social responsibility (CSR) and a company's financial success are linked. An array of sources will be employed in the compilation of the study's findings about the correlation between financial success and corporate social responsibility (CSR).

2. Literature Review

Corporate Social Responsibility (CSR)

Certain firms engage in corporate social responsibility (CSR) after meeting their legal, financial, moral, and charitable obligations to the community. Bowen defines corporate social responsibility (CSR), which he invented, as academic social responsibility as the notion of CSR that he published in his book "Social Responsibility of Businessman". According to Bowen, corporate social responsibility (CSR) is the pursuit of legal rights in connection to societal objectives or ideals that outline the obligations of businesspeople to be guided by their choices and actions. Since then, a number of definitions of corporate social responsibility have been proposed, although none of them are precise (Cho, S., Chung, C., Young, J., 2019).

According to Shin, corporate social responsibility (CSR) is a set of norms for company conduct that uses business activity to solve social and economic concerns in order to satisfy stakeholders' needs and expectations as well as those of the larger community. Prominent global associations characterize corporate social responsibility (CSR) as an organization's continuous endeavor to establish a mutually advantageous rapport with the community. There are several perspectives and interpretations of social responsibility as a result. The most often used definition of corporate social responsibility (CSR) in research, however, comes from the European Commission and dates back to 2001. It states that "Companies voluntarily interact with their stakeholders and integrate social and environmental concerns into their corporate management" (Cho, S., Chung, C., Young, J., 2019).

Businesses with little funding may utilize corporate social responsibility (CSR) as a "greenwashing" tactic to boost their public perception in the community and on the environment without having to commit a significant sum of money to obtain organizational and performance gains linked to CSR. Consequently, Kim et al. (2012) condensed theoretical suggestions found in the literature and made the case that corporate CSR comes in two flavors. The first kind of CSR invests a lot of money in establishing CSR governance for use in a wider range of social good and is dedicated to ethical conduct in the environment and society. As a result, these companies have a higher chance of being able to provide advantageous and favorable results on CSR-related problems, which will enhance their commercial performance and increase their social legitimacy.

Financial Performance

When a company achieves its financial objectives within a set time frame, it is said to have performed financially. Buying and allocating money based on factors including solvency, profitability, leverage, and sufficient capital is covered by this. Financial performance is the yardstick used to assess a company's capacity to monitor and manage its own resources. Data from the balance sheet, cash flow, profit and loss, and changes in capital may all be used by the company's managers to inform their choices.

Since it represents the company's financial success, stakeholders are primarily interested in the bottom line of any financial statement. Profitability is often viewed as a long-term goal that gauges not just an item's success but also the expansion of the market for it. Manufacturers also argue that profit is determined by finding a balance between the costs and revenues associated with every aspect of the business in order to thrive in an often uncertain market. Budget execution suggests a relative measure of acquisition limit, even when profit is presented as a direct measure of procurement restriction. Financial performance is ultimately an offering venture's ability to generate excitement from its use. Taking into account the financial performance it gives a more precise perspective of an enterprise (Matar, A., & Eneizan, B. 2018).

3. Research Methods

This study uses a meta-analysis approach by searching five journals entitled the relationship between social responsibility (CSR) and the financial performance of a company. The process for making this article is to search for journals through journals that have been published about CSR and financial performance from

various different countries. After searching for journals we identified by reading the introduction, methods used, research objectives, journal outline, population sample, variables studied, main findings, and results of the study.

In the meta-analysis method, the researcher does not conduct primary data collection or experiments directly, but rather analyzes and combines the results of previous studies relevant to the topic at hand. This method allows researchers to identify trends, patterns, and broader conclusions from various existing independent studies. By using the meta-analysis method, researchers can provide a comprehensive overview of the relationship between CSR and financial performance in a company based on the results of previous studies that have been conducted. However, this method has limitations in terms of the availability and quality of secondary data used, as well as the possibility of bias in the selection and interpretation of previous research results.

After reading and identifying the data from the five journals, we integrated the findings from the various research to arrive at more precise conclusions and make better judgments based on the information at hand. Combining the data from the five journals to create a single source of information gives decision-makers a solid evidence base that may inform future research directions and policies.

4. Results and Discussion

Ye Feng, Rabia Akram, Vu minh Hieu, and Nguyen Hoang Tien's first work, "The Impact of CSR," looked at the connections between sustainable financial performance, business reputation, and corporate social responsibility (CSR). They also examine how corporate reputation functions as a mediator in the link that exists between CSR and Italian companies' long-term financial success. This research offers manufacturing businesses a means of achieving sustainability in their operations by removing the detrimental effects of their business practices on the community, the environment, or the general welfare. In order to improve corporate performance, this study presents CSR business strategies.

Examples of CSR responsibilities such as responsibility to employees, customers, society, and having an impact on the environment so that the company's reputation rises and can achieve sustainable business, in this study uses relevant data collection methods from several manufacturing industries in Italy. The results of this study reveal that the implementation of various effective CSR practices can improve business processes, improve production quality, and get support from stakeholders such as customers, employees, suppliers, and the government. This study can conclude that improving a company's reputation helps to get cooperation from stakeholders as many investors are interested in a company that implements CSR

In addition, this article examines the impact of mediating corporate reputation between CSR relationships and sustainable corporate business performance in Italy. The study concludes that improving a company's reputation has a business opportunity that helps them gain cooperation from stakeholders. Therefore, they can run a business to be more advanced, develop and be sustainable. Furthermore, the company's reputation will be enhanced by the adoption of CSR duties that are properly and successfully carried out toward consumers, workers, the community, and the environment. This will lead to the creation of sustainable business prospects.

Adriana Galant and Simon Cadez wrote the second article, Financial Performance and Corporate Social Responsibility: An Evaluation of Measuring Techniques. A variety of CSR and CFP assessment techniques are examined, with the benefits and drawbacks of each technique highlighted.

In order to explain the inconsistent findings in the empirical literature about the CSR-CFP link, this paper focuses on the operationalization and measurement elements of study designs (Griffin & Mahon, 1997). A literature review of the journal identifies the various approaches used to find out whether CSR and CFP are related and to know the advantages and disadvantages of CSR. The main advantages and disadvantages of some of the approaches identified in this study are that there is no perfect size for CSR and CSP. Empirical evidence on the relationship is quite mixed, several research' findings indicating both a good and a negative correlation between financial success and corporate social responsibility.

This article concludes that there is complexity in the link between (CSR) and (CFP), and that it has not been determined exactly and decisively. Numerous research have found both a positive and a negative association between CSR and financial success, providing very conflicting empirical evidence for this relationship. In order to fully comprehend CSR and CFP, this article emphasizes the necessity for more study as well as the application of conventional measuring techniques.

In the third article written by Wan Fauziah Wan Yusoff and Muhammad Sani Adamu The Relationship Between Corporate Social Responsibility and Financial Performance. Evidence from Malaysia in this research investigates CSR activities and financial performance in public companies in Malaysia.

This research used methods including purposive sampling which resulted in the assessment of one hundred companies located in Malaysia and listed on the Malaysian stock exchange. This method uses literature with four variables consisting of environment, community, workplace and market. The results of this research contribute to practical knowledge due to recommending and validating good CSR regulations and codes of practice in public companies in Malaysia.

These findings support a number of previous studies regarding the relationship between corporate CSR and corporate financial performance which recommend that compliance with CSR best practices will result in high corporate performance. However, the findings of this research must be interpreted specifically and specifically because this research was purely conducted on the top hundred companies in Malaysia.

It is possible to conclude that CSR has an impact on financial performance, namely ROA and NPM, based on the findings of the research in the third article as well as the analysis and debate. CSR, however, has no bearing on ROE or EPS for businesses listed on the IDX that are in the mining and chemical industries. The findings demonstrated that while return on equity and profits per share are unaffected by CSR, return on assets and net profit margin are. The article's data leads one to the conclusion that corporate social responsibility (CSR) significantly improves financial performance metrics, particularly return on assets (ROA) and net profit margin (NPM) in Indonesia's mining and chemical industries. This study has limitations so that the results obtained allow deviations from the actual factors that occur or theories and theories. It is recommended that companies in this sector implement CSR practices that are beneficial to society and the environment. It is recommended to conduct further research involving more companies and a longer observation period to obtain more accurate and comprehensive results.

M. Nazir Zameer and Shafat Maqbool present an empirical study of Indian banks in their fourth book, *Corporate Social Responsibility and Financial Performance: An Empirical Study*. The literature lacks concrete proof, despite the abundance of studies demonstrating the connection between corporate value and CSR. As a result, this study offers some evidence—such as empirical evidence—that can be helpful in explaining the variations between earlier research. Verifying the effect of corporate social responsibility (CSR) on profitability and market returns in the Indian setting using improved and novel approaches. 28 Indian commercial banks' panel dataset spanning ten years was used in the study. Moreover, Age, size, risk, and capital intensity were all considered control factors.

The findings demonstrated the beneficial impact of CSR on stock returns and profitability. Studies show that integrating corporate social responsibility (CSR) into company strategy may provide Indian bank enterprises increased legitimacy, a competitive advantage, and better financial results. According to the report, the financial performance of Indian banks is positively impacted by Corporate Social Responsibility (CSR). Evidence of the advantages of social responsibility may be seen in India, where corporate social responsibility (CSR) positively affects stock returns and profitability. Financial success may rise when business strategy and CSR are combined. Enhancing financial performance and giving the organization a competitive edge are two benefits of integrating CSR into daily operations.

In general, the results indicate that corporate social responsibility (CSR) may have positive effects on the financial outcomes of Indian banks and companies. This underscores the significance of integrating CSR into company strategy for long-term prosperity. For strategic managers, the study's findings have significant ramifications. First, considering how corporate social responsibility (CSR) affects business performance, businesses need to give social responsibility enough thought. To create reliable study, it should take into account various forms of CSR in subsequent studies. Because each business's operations differ in terms of corporate social responsibility, the second research concentrates on a particular industry, however it may be applied to a greater number of industries. Future studies have to be carried out in the industrial sector as a result.

The fifth article, *Corporate Social Responsibility and Corporate Financial Performance: Evidence from Korea*, states that corporation social responsibility (CSR) is now seen as a crucial part of business strategy. About thirty percent of global CEOs regarded corporate social responsibility (CSR) as the most critical challenge for their company, with another forty percent rating it at the top of the list, according to a 2007 Economist Intelligence Unit poll (The Economist, 2008).

The contexts in which CSR action takes place are varied. They include Intel's development and education programs in countries like Afghanistan, Cambodia, Haiti, and Uganda; General Electric's charitable donations and investments in environmentally friendly products and practices ('Surprising survivors: Corporate acts of kindness', Property, January 20, 2009); Pfizer's free name-giving to clients who have recently lost their jobs ('Why doing good is good for business', Property, February 2, 2010); and Starbucks' benefits and stock healthcare, even for part-time workers, along with their advocacy of environmentally friendly practices through partnerships with coffee growers ('How UPS, Starbucks, Disney are doing good', Property, February 25, 2006).

The relationship between corporate financial performance and CSR is evaluated using a sample of Korean businesses and the first comprehensive multidimensional measure of CSR, the KEJI index.

Two important contributions are made by this work. Our research design outperforms many previous studies in the following ways: (i) we avoid the problem of stakeholder misalignment by using a stakeholder-weighted CSR index; (ii) we use Carhart's (1997) four-factor model to control for other variables known to be significant determinants of corporate financial performance; (iii) we further analyze the bidirectional relationship between CSR and corporate financial performance after correcting for potential endogeneity; and (iv) we perform Granger causality tests for CSR and corporate financial performance. Secondly, our research provides the first comprehensive data from Korea about the relationship between a company's financial success and various forms of corporate social responsibility.

Firm financial performance and stakeholder-weighted CSR metrics are positively and significantly correlated; however, equally-weighted CSR measures do not show the same correlation. The case for adopting stakeholder-weighted measures to measure CSR is further strengthened by the fact that this positive connection is resilient to other model parameters and some additional testing. These findings imply that a company must identify the facets of its social duty that matter most to its major constituencies and that, with the right focus, a company's social activities may boost its bottom line in Korea.

We mention a few study shortcomings that should be looked at in more research as we wrap up this report. First, the issue of potential bias in sample selection has not been well addressed. Our sample comes from the total number of businesses that CCEJ chose to build the KEJI index. The selected companies are frequently large and in a superior financial and corporate social responsibility position. This restriction is unavoidable since the KEJI index is the only reliable multidimensional CSR statistic available in Korea. Second, although the KEJI index is thought to be the most trustworthy CSR metric available in Korea right now, there is still opportunity for development in terms of how businesses are chosen and the qualitative and quantitative evaluation procedures that result in the final score. Lastly, the study's seven-year timeframe might not be sufficient to allow the findings to be broadly applied. When extrapolating inferences from this study's findings, care must be used.

Discussion

The concept of corporate social responsibility, or CSR, mandates that companies conduct their business in a way that considers the social and environmental impact of their operations in addition to maximizing profits for the company. Businesses may show the local and wider communities how committed they are to improving social and environmental conditions by participating in corporate social responsibility (CSR) activities.

CSR, also known as a strategic plan (Roberts, 1992), is becoming more and more significant for the firm since it gives it the opportunity to stand out from the competition and provide organizational value. Most people assume that when CSR guidelines are successfully implemented, the company would perform financially well.

A component of a company's long-term business plan is corporate social responsibility, or CSR. The concept of social responsibility, or CSR, holds that businesses, in particular, have a duty to their community, shareholders, customers, workers, and the environment in all facets of their operations, including matters that affect the environment like waste, pollution, labor, and product safety.

There are several instances where large corporate systems fell apart quickly as a result of unethical decision-making and a lack of openness. CSR is the only method to stop this and create a sustainable economic system (Horvat et al., 2014).

According to Vilanova et al. (2009), pp. 57–69, there are five dimensions of corporate social responsibility (CSR). Among these components are the market, community relations, workplace, accountability, and vision. Strategic performance frameworks increasingly incorporate corporate social responsibility (CSR), which has developed from an executive's selfless endeavor to a crucial part of stakeholder management (Kolodinsky et al. 2010, pp. 167–181).

The aforementioned viewpoint emphasizes the significance of corporate social responsibility (CSR) and how it affects the bottom line of a business. The development, profitability, and long-term viability of a firm are essential. Therefore, corporate social responsibility, or CSR, is essential to the company's profit-making plan. CSR also plays a part in preserving positive working relationships with the community and fostering a sustainable business.

From the opinions expressed above, a discussion can arise, which is similar to the delivery of the contents of the previous five journals. CSR has a relationship with CFP as one of the business strategies to develop business and also business sustainability. The existence of CSR helps a company to achieve profits or

profitability, and can even improve the company's image, clean and healthy corporate social environment, and improve employee performance.

So it can be stated that the topic of discussion of this research journal is in line with the five journals that are indeed the topic of discussion and also as material for discussion through comparison with previous journal research statements. It's just that in this section, judging from the results of the five journals, we as researchers see a gap in each country in the development of CSR, due to different policies between countries and even in terms of the lack of adequate human resources owned.

5. Conclusion

Based on the data analyzed from the five journals above, this study is to determine whether strategic business social responsibility (CSR) programs have a relationship with the financial performance of a company. From the five journals with different countries whether CSR has an impact on sustainability for a business. It can be concluded from the five journals that CSR in the first and second articles CSR has no relationship with the company's financial performance or even profitability, however, in the third, fourth and even fifth articles CSR has a relationship and has an effect on the financial performance of a company if CSR is managed properly which results in a company having the ability to maintain or support.

This study makes use of data from the five journals mentioned above to conduct research on CSR business strategies that are put into practice in an organization. The firms under analysis are from various nations and have an influence on a business's sustainability that is insignificant in relation to its financial success. The third article discusses the link between corporate social responsibility (CSR) and financial performance, specifically how CSR influences ROA and NPM. CSR is the idea that businesses are accountable for the social and environmental effects that result from their operations.

According to the information gathered from the aforementioned five journals, certain businesses that employ corporate social responsibility (CSR) either positively or negatively impact their financial performance. Thus, more investigation is required to ascertain whether corporate social responsibility initiatives and a company's financial performance are related. Effective CSR program conduct and implementation may boost employee happiness and reputation, which will improve productivity and the long-term viability of the organization. Furthermore, investors that prioritize social and environmental responsibility tend to find firms engaged in CSR initiatives more appealing.

Although some of the aforementioned publications claim that corporate social responsibility (CSR) has no bearing on financial success, the study's findings support the notion that CSR performance is positively correlated with profitability and business value. Because this research only employs analysis and incorporates information from five distinct publications, it must be specifically understood. To find out if CSR influences a company's financial success, more study is anticipated.

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