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Corporate Social Responsibility Impact on Financial Performance

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A R T I C L E I N F O

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A B S T R A C T

The objective of this research is to explain Corporate Social Responsibility impact on financial performance in international companies. This research is a qualitative approach using secondary data obtained from research results, research reports, and scientific journals. The sampling method uses purposive sampling technique, using a sample of 5 research results. The results showed that Corporate Social Responsibility significantly contributes to the enhancement of a company's financial success with multiple elements that play an important role in this relationship. Companies that are active in Corporate Social Responsibility tend to have better reporting, thus increasing transparency, reputation, and investment attractiveness that contribute positively to financial performance.

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INTRODUCTION

Corporate Social Responsibility has become such an important aspect of business operations for international companies that its impact on financial performance has become a subject of significant interest and research. Howard R.Bowen first defined Corporate Social Responsibility in his book entitled "Social Responsibilties of The Businessman" in the 1993. Corporate Social Responsibility is the disseminationof non-financial information that describes a company's financial performance which is used as a basis for potential investors to consider investing in the company (Harahap, 2019) in (Afifah et al., 2021a). By increasing public awareness of environmental and social issues, companies are required to be more transparent and responsible for the influence of company operations. Corporate Social Responsibility is considered a tool for companies to demonstrate a commitment to fulfilling stakeholder expectations and improving the company's image. Involvement in Corporate Social Responsibility is often considered a long-term investment that not only benefits society, but also provides financial benefits for the company. Through the practices of sustainable resource management, investment, and maintenance of ethical work standards, companies can build a reputation and gain the trust of investors, thereby increasing the value of the company and changing market perceptions. Companiesare established with the aim of providing benefits to investors through the profits generated. A company's financial success is evaluated through a review of how well has managed and implemented financial regulations. This involves preparing financial statements in compliance with the guidelines and rules included in the Global Reporting Initiative (GRI) or the International Financial Reporting Standard (IFRS). Improving financial performance is done to improve the welfare of the company.

Past scholars have done a great deal of research on the impact of Corporate Social Responsibility disclosure on financial success. The relationship between CSR and financial success remains controversial, particularly when considering global corporations. Measuring the impact Corporate Social Responsibility on financial performance can be difficult because evaluating non-quantifiable outcomes can be challenging. Consequently, in order to fully examine the variables that cloud influence the correlation between CSR and financial success, this research will also take info account internal corporate policies, the standard of SCR reporting , and macroeconomic conditions. Stakeholder theory and legitimacy theory serve as the foundation for the application of social responsibility, where businesses must concentrate on their interaction with society. According to Deegan (2002) in Afifah et al. (2021b), A corporation can be considered legitimate if it aligns with the societal value system and the environment in the which it operates. This includes the company's attention to earnings, community interests, and the surrounding environment. This is consistent with the idea of the triple bottom line, which holds that businnesses should now consider the interests of society and the environment in addition to just profit (Cho et al., 2019). From the background

that has been stated, the objective of this research is to explain Corporate Social Responsibility impact on financial performance in international companies.

LITERATURE REVIEW

Management Accounting

Management accounting is an accounting method that focuses on providing relevant information for company management, which is used in decision-making, operational management, and supervision of company activities. It plays an important role in forming a strategic basis for making business decisions, organising governance, and overseeing the company's work results. In addition, management accounting also contributes to designing effective plans, supervising and controlling business processes, and dealing with problems that arise due to irregularities in the organisation (Dewi Ramadhani, 2019).

Stakeholder Theory

Stakeholder theory is a concept that illustrates that companies are not only responsible for maximising profits for shareholders, but must also provide benefits to society, the social environment, and the government. This theory considers the company as an entity thatinteracts with various stakeholders, including creditors, suppliers, consumers, and other interested parties. Stakeholders have an important role in the sustainability of the company because they have influence on the resources needed in the company's operations, such as labour, customers, and owners (Tsalatsa, 2019).

Legitimacy Theory

Legitimacy theory is explained as companies constantly trying to ensure and reassure the behaviour of companies operating with society. Legitimacy theory basically assumes that companies operate in society through a social contract that agrees to take an action that is expected to equalise goals. (Brigham and Houston, 2019).

Financial Performance

Financial performance is a measuring tool to determine the company's achievements in a certain period through its business activities which aim to create profits in an effective and efficient manner. Financial performance can be measured using certain analytical techniques and tools, so that the results can describe the company's financial condition, such as capital, liquidity, and profitability (Sabil, 2016). Stable and consistent financial performance is an important goal for companies because it can attract investors to invest. In addition, financial reports that are presented periodically allow comparisons between the company's performance in the past and thecurrent period which is used as a determining factor in corporate decision making. Byunderstanding financial performance, companies can take strategic steps to improve operational efficiency and effectiveness and ensure business sustainability.

Corporate Social Responbility

Based on Law No. 40 of 2007, CSR represents a commitment to contribute to sustainable economic development, which aims to increase the company's worth as perceived by public and improve the quality of life and the environment that benefits all parties. CSR can also give companies the power to expand co-operation with other companies and improve the company's image. Companies that participate in social responsibility (CSR) initiatives must disclose them in their annual reports to show that they have fulfilled their obligations to stakeholders. It is expected that the benefits of CSR are felt by stakeholders and encourage the community to maintain the company (Wijaya, I., & Sugara, K., 2023).

METHODOLOGY

This research uses a type of research with a qualitative approach, which uses secondary data sources in the form of research results, research reports, and scientific journals. The sampling method was carried out by using purposive sampling technique which isa sampling method according to researcher’s specific criteria. The criteria determined by the researcher are as follows:

1. Internationally published journals and research results in the digital library.
2. Research results that explore CSR effect on financial performance.
3. Literature that has data relevant to the research.

So that a total of 5 research results were obtained. The type of data for this research is secondary data which is data indirectly or comes from other people, for example documents or previous research (Sugiyono, 2019) in (Afifah et al., 2021b). The secondary data of this study were collected through documentation techniques from articles that discuss CSR impact on the company's financial performance. These articles are scientific works such as theses and journals published through international websites, with the aim of obtaining variations from previous research results and to test the partiality of the data used. The data sources for this study were taken from official journal publishing sites such as Google Scholar, Science Direct, Scihub, Tandfonline, and Google search sites.

RESEARCH RESULT

Content Analysis

The literature reviewed presents a variety of conclusions regarding the link between CSR and the financial results of companies, particularly within the banking sector in Pakistan, businesses in India, and the Egyptian stock market. Ahmad et al. (2019) found a positive correlation between CSR initiatives and the financial performance of Pakistani banks. While Corporate Social Responsibility has a notable impact on Return on Assets (ROA), its effect on Return on Equity (ROE) is comparatively moderate. One of the weaknesses of this article is the focus on one industry (banking) and a specific geographical

area (Pakistan), so generalisation of the findings to other industries or countries may be limited. Another study by Kesari & Rawat (2023) stated that there is CSR impact on the financial performance of companies in India. Despite finding a positive relationship between CSR and key financial indicators such as ROA, ROE, and Profit Before Tax (PBT), the relationship was rated low. One possible weakness of this study is the limited sample selection of the top 15 companies spending on Corporate Social Responsibility, this could impact the ability to apply the results to a broader range of firms.

In Hasan Ismail's research (2019), revealed a positive correlation between CSR and financial performance, especially ROA and ROE in the Egyptian stock market. However, the weakness is the lack of discussion about data collection methods, thus affecting the validity and reliability of the findings. Additional research by (Maqbool & Zameer, 2018) indicated that Corporate Social Responsibility positively influences the financial outcomes of Indian banks.. However, like other studies, the focus. on one particular sector (banking) and a particular region (India) may limit thegeneralisability of the findings. Meanwhile, Sitorus et al. (2023) highlighted the influence ofCSR and financial distress financial distress on the financial results of firms listed on the Sri Kehati index. The findings show that CSR has a positive influence on ROA and ROE, but a negative influence on Tobin's Q. One of theweaknesses of this study is the focus on one index (Sri Kehati) and the limited period(2017-2021), which may limit the generalisability of the findings to the overall stock market.

DISCUSSION

Corporate Social Responsibility activities are an important element in the company's strategy which aims to achieve success in its implementation. CSR is the concept of companies being responsible not only to shareholders in financial terms, but also to society as a whole (Sitorus et al., 2023). This includes a series of activities designed to have a positive impact on society and the environment, includingphilanthropic business ethics practices, sustainable environmental management, and community development (Ahmad et al., 2019). CSR must conform to internationally recognised standards to ensure validity and reliability. Corporate social responsibility must conform to internationally recognised standards to ensure its reliability and validity. Through participation in CSR initiatives, companies can showcase their dedication to societal and ecological duties, particullarly during a crisis of consumer confidence in business (Sitorus et al., 2023). The structure of CSR is a multi-dimensional work that affects the company's relationship with customers and society at large. The CSR standard in this research aims to capture the complex influence of CSR on the company's relationship with customers, which subsequently impacts the company’s allegiance and fiscal outcomes.

Sitorus et al. (2023) emphasise the importance of critical research into CSR, given the limited publications that tend to focus on philanthropy, ethicsand governance. Some companies only integrate CSR in certain areas that are considered important or vulnerable to human rights and environmental issues. Research by Kesari & Rawat (2023) suggests that CSR should be

considered as part of a broader business strategy with the aim of creating long-term value for all stakeholders, not just as a philanthropic initiative. This study uses the CSR standard which is used to reflect a comprehensive and integrated approach to corporate social responsibility. Meanwhile, research by Sitorus et al. (2023) highlights the importance of CSR research, this study uses strict standards in theirmethodology to ensure a significant contribution to the understanding and practice of CSR, namely quality standards such as ISO 9001 are considered important in ensuring the quality of products and services for global stakeholders.

Researchby Ahmad et al. (2019) uses the Global Reporting Initiative (GRI) standard for sustainability reporting frameworks, including social, economic, and environmental aspects. This is in line with Maqbool & Zameer's (2018) research, which uses the Global Reporting Initiative (GRI) to measure the level of disclosure of Corporate Social Responsibility information by banks, showing the CSR role in integrating social and environmental responsibility into business strategies for better financial performance. Despite differences in methodology and geographical context, effective CSR goes beyond philanthropy and encompasses ethical, transparent and sustainable business practices, and can contribute importantly to a company's enduring prosperity, both in increasing customer satisfaction and in improving financial performance and share value. This emphasises that CSR should be an integral part of a company's business strategy, not just an additional responsibility.

Financial performance itself is a subjective assessment that describes the ability of a company to utilise its main assets to generate revenue, which also serves as an indicator of the general financial health of a company over a certain period of time. On the other hand, financial performance indicators are ratios that assess a company's operational effectiveness. Studies often use the same two indicators, namely Return on Assets (ROA) and Return on Equity (ROE). ROA and ROE are generally used indicators to measure financial performance because they offer a comprehensive overview of the company's efficiency and profitability. These two indicators are important in financial analysis because they show the basic performance of the company from two different perspectives, namely the use of assets and the utilisation of shareholders' capital. Therefore, ROA and ROE are often focal points in annual reports and financial analyses to assess financial health and assist in strategic decision-making.

The relationship between CSR and financial performanceis influenced by several factors. First, compliance with strict regulations, such as the implementation of strict laws such as in India that require reporting of CSR activities to increase transparency and accountability (Maqbool & Zameer, 2018). Second, the importance of transparency in CSR reports, where clear and comprehensive disclosure can increase stakeholder trust and corporate image. Third, management's commitment to CSR ensures accurateprogramme implementation and reporting. Fourth, pressure from stakeholders such as investors and communities that encourage companies to be more socially responsible and improve the quality of their reporting (Sitorus et al., 2023).

Fifth, the implementation of global disclosure standards such as the Global Reporting Initiative (GRI) or the Financial Reporting Standard (IFRS) provides a framework for consistent and comparable reporting. Finally, the utilisation of technology in CSR reporting can improve accuracy and efficiency, enabling faster and more accessible reporting to stakeholders. Accurately, transparent and standardised CSR reporting, companies can maximise the benefits of CSR activities. This duty exerts a considerable influence on financial performance. Where the financial performance of a company is formed by how it discloses its dedication to environmental stewardship. This indicates that stakeholders are cognizant of eco- friendly practices and deem them crucial when deciding on investments to enhance the company’s operations.

CSR has a complex impact on the company's financial performance. In the context of Corporate Social Responsibility, financialperformance is used as a measuring tool to determine how much CSR initiatives contribute to the sustainability and profitability of the company (Ahmad et al., 2019). Strong financial performance indicates that the company is not only economically successful but also able to allocate resources for effective CSR programmes, creating value for stakeholders and society. Financial performance in CSR is an important indicator that shows the company's ability to balance financial achievement with its social responsibility. CSR can also improve the reputation and positive image of the company in the eyes of stakeholders, such as consumers, investors and local communities. This good reputation often leads to increased customer loyalty and investor confidence, which in turn can improve the company's financial performance. CSR also creates a competitive advantage by differentiating the company from competitors, attracting more socially and environmentally conscious consumers. CSR can also reduce operational risks and costs through resource efficiency and increased employee productivity (Kesari & Rawat, 2023).

Companies that implement CSR are often more attractiveto investors and creditors, thereby facilitating access to capital and obtaining favourable funding conditions (Ahmad et al., 2019). CSR also strengthens relationships with various stakeholders, including employees, suppliers and local communities, which support the long-term success of the company. Empirical research suggests a positive relationship between CSR and financial performance, although the intensity and path of this relationship may vary depending on the industry, geographical, and firm size context. Overall, although there is some variation in research findings, many studies show that CSR has a positive influence on corporate financial performance, so companies that integrate CSR into their business strategy are likely to gain sustainable financial and non- financial benefits.

To evaluate CSR effect on financial performance, financial statements can be used as an intervention variable. Research shows that companies that are active in CSR tend to have better reporting. In their reporting, companies should pay attention to the principles of transparency, accountability, and relevant CSR disclosures. They are more likely to disclose relevant information about their social, environmental impacts and sustainable actions. This is

relevant to stakeholder theory, which emphasises CSR provides positive social and environmental impacts (Tsalatsa, 2019). These disclosures increase transparency and help stakeholders understand how the company operates more broadly. CSR also increases a company's accountability to society and the environment. By adopting responsible practices, companies ensure that their reports reflect actions that are in line with social and environmental values. In addition, strong CSR can improve the company's reputation. A good reputation creates a positive impression for stakeholders, so investors tendto consider it as good news for investing. The implication is that companies will maintain thisreputation by improving financial performance as a form of accountability to stakeholders. Good reporting on CSR initiatives can strengthen favorable reputation as perceived by company’s stakeholders, increase customer loyalty, attract investment, and build better relationships with communities and regulators. Relevant to stakeholder theoryand legitimacy theory, CSR can be seen as a response fromcompanies to pressure from stakeholders to act responsibly, and at the same time, CSR is a way to uphold their legitimacy in the public perception. Thus, CSR becomes an important part of the strategy to fulfil stakeholder expectations and maintain a legitimate social position in society, as well as improve company performance.

CONCLUSIONS AND RECOMMENDATIONS

Based on the research that has been done, it shows that Corporate Social Responsibility has a significant impact in improving the company performance financial. Factors such as regulation, reporting transparency, management commitment, stakeholder pressure, international reporting standards, and technology in CSR reporting have an important role in this relationship. Companies that are active in CSR tend to have better reporting, thereby increasing transparency, reputation, and investment attractiveness that contribute positively to financial performance. In addition, sustainable practices that reduce environmental risks can also increase profitability, so Corporate Social Reaponsibility and reporting quality have a close relationship and contribute to sustainability and building stakeholder trust. Thus, Corporate Social Responsibility not only provides non-financial benefits, but also positively contributes to the company's financial performance in the long run.

ADVANCED RESEARCH

In writing this article the researcher realizes that there are still many shortcomings in terms of language, writing, and form of presentation considering the limited knowledge and abilities of the researchers themselves. Therefore, for the perfection of the article, the researcher expects constructive criticism and suggestions from various parties.

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