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The Impact Of Corporate Social Responsibility On Companies Financial Performance

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Abstract: This research discusses the impact of Corporate Social Responsibility (CSR) on company financial performance. Findings from various studies show a positive relationship between CSR and financial performance, where CSR activities influence profitability and company value. However, this relationship with renewable energy companies remains unclear, highlighting the need for further research in this area. Overall, investing in socially responsible initiatives may not always have a direct impact on firm value and performance, highlighting the complexity of the relationship between CSR and financial outcomes.

Keywords: Corporate Social Responsibility, CSR, Financial Performance.

INTRODUCTION

Corporate Social Responsibility (CSR) has received great attention in the business world because of its potential impact on a company's financial performance. Hasanah & Nurleli (2022) explored the influence of CSR disclosure on financial performance, especially Return on Assets (ROA) in palm oil companies listed on the Indonesia Stock Exchange, explaining how CSR practices can influence financial metrics in certain industries (Adita et al., 2021). The main key to achieving sustainability is public acceptance of the company's presence. Sustainability can be achieved with the birth of a concept known as Corporate Social Responsibility, which is further shortened to CSR. Corporate Social Responsibility is an integrated concept that combines business and social aspects in harmony with the aim that companies can help achieve the welfare of stakeholders and companies can achieve maximum profits.

Suidah & Purbowati (2019) investigated the relationship between CSR, brand image and corporate value as moderated by financial performance, providing insight into how CSR initiatives, together with brand image, can influence corporate value, and financial performance plays a moderating role in this regard relationship (Suidah & Purbowati, 2019).

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Disclosure of Corporate Social Responsibility can be used as a factor in measuring company performance. Apart from that, company size is also indicated to have an influence on a company's financial performance. It is thought that company size can influence the company's operational activities so that it will have an impact on the company's financial performance. By looking at the company's performance, you can see the condition of the company in a certain time period which will be useful in decision making.

The company's performance that is often in the spotlight is its financial performance because it is one of the factors that investors use as a reference when buying shares. Profitability ratios are used as a basis for measuring a company's financial performance because the main purpose of a company being founded is to make a profit, so by using this method we can find out the company's ability to generate profits. Indicators of business attractiveness can be measured from business profitability, namely through Return on Assets (ROA) and Return On Equity (ROE). Wijayanto et al. (2021) focuses on the moderating influence of earnings management on the relationship between CSR and financial performance, contributing to understanding the complexity of these dynamics in companies (Wijayanto et al., 2021).

The importance of assessing a company's financial performance according to Munawir (2006:31) is as follows: 1) To determine the level of liquidity, namely the company's ability to obtain its financial obligations which must be fulfilled immediately or the company's ability to fulfill its finances when they are billed. 2) To determine the level of solvency, namely the company's ability to fulfill its financial obligations if the company is liquidated, both short-term and long-term financial obligations. 3) To determine the level of profitability or profitability, which shows the company's ability to generate profits during a certain period. 4) To determine the level of business stability, namely the company's ability to carry out its business stably, which is measured by considering the company's ability to pay interest charges on its debts including repaying the principal of its debts on time as well as the ability to pay dividends regularly to shareholders without experiencing financial obstacles or crises.

The main goal of Corporate Social Responsibility (CSR) is sustainable development. This goal will be achieved if Corporate Social Responsibility (CSR) is reflected in a company's business processes. In other words, a company's business processes must make a significant positive contribution to preserving social and environmental quality. Corporate Social Responsibility (CSR) should not be viewed as an activity separate from a company's business processes. Corporate Social Responsibility (CSR) does not make a significant contribution to sustainability development because the implementation of Corporate Social Responsibility (CSR) is not internalized into the company's core business (Walker, 2010). Sustainable finance or responsible financial business is the main demand aimed at banking companies related to sustainable development (Durbin, Herz, Hunter, & Peck, 2006). Sustainable finance means that banking company financial projects consider social, environmental and ethical aspects.

Ali et al. (2019) emphasized the mediating role of corporate image and customer satisfaction in the relationship between CSR and financial performance, indicating that CSR activities can improve a company's financial performance by improving its image among stakeholders and reducing overall costs (Ali et al., 2019).

In conclusion, these studies collectively underscore the importance of CSR activities in shaping corporate financial performance. By exploring various aspects of CSR, such as disclosure, brand image, and earnings management moderation, researchers have provided valuable insights into how CSR practices can influence financial outcomes in different organizational contexts.

This research focuses on banking companies. This is because banking companies have slightly different business activities compared to companies in other sectors. Banking companies have business processes that do not have a direct impact on social and environmental impacts. But on the other hand, banking companies have an indirect impact on the social and environment through their financial projects, this encourages banking companies to be required to carry out Corporate Social Responsibility (Csr). This research aims to bridge this gap by examining the relationship between Corporate Social Responsibility (CSR) activities and customer satisfaction in the Saudi banking sector, providing valuable insights for the development of effective Corporate Social Responsibility (CSR) strategies in the industry.

LITERATURE REVIEW

Corporate Social Responsibility (CSR)

Corporate Social Responsibility (CSR) is a concept that refers to the responsibility of companies towards the social, environmental and economic impacts of their operations. CSR includes various initiatives and actions carried out by companies to make positive contributions to society and the surrounding environment. According to Kotler and Lee (2005), CSR is a company's commitment to improving the welfare of society through ethical business practices and philanthropic contributions. Corporate Social Responsibility Program

Corporate Social Responsibility (CSR) is a long-term investment that is useful for minimizing social risks, and functions as a means of improving the company's image in the eyes of the public. One implementation of the Corporate Social Responsibility (CSR) program is community development or empowerment.

Corporate Social Responsibility (CSR) is an important aspect of modern business, which includes a series of activities that benefit society and the environment (Khan, 2012). It is a self-regulating business model that makes a company accountable to itself, its stakeholders, and the public (Kiruthika, 2020). In India, CSR is seen as a way to minimize costs and risks while increasing brand value and reputation (Jaysawal, 2015). Overall, CSR involves businesses operating in ways that improve society and the environment (Sari, 2020).

Corporate Social Responsibility is a company's natural effort/mechanism to clean up the large profits obtained by the company. As is known, companies in gaining profits can sometimes cause losses to other parties, whether in intentional or unintentional activities. It is said to be a natural effort of Corporate Social Responsibility which is a consequence of the impact caused by carrying out activities carried out by the company which can be detrimental to society. Therefore, the company is obliged to make the situation of the people who experience the impacts caused by the activities carried out by the company better.

Financial performance

Every company seeks to maximize shareholder wealth, which means maximizing share value, which in the process requires considering profits and also the level of risk. Apart from that, it requires a change in view of value and reputation, which are very closely related. Compliance and regulations relating to the environment, employment, and others (Brigham & Houston, 2010)

Financial performance is the ability of an organization or company to manage financial resources to achieve predetermined goals and objectives. Financial performance can be measured using various indicators, such as return on investment (ROI), return on equity (ROE), return on assets (ROA), and others. According to Brigham and Houston (2012), financial performance can be influenced by several factors, such as capital structure, rate of return, and business risk. Therefore, companies must be able to manage these factors well in order to achieve optimal financial performance. Financial performance is a condition that describes the finances of a company which carries out analysis using financial analysis tools, so that it is able to find out about the good and bad financial conditions of a company which is a reflection of work performance (Arifin & Marlius, 2017).

Ross et al. (2013) also explained that financial performance can be measured using financial ratio analysis, such as profitability ratios, efficiency ratios, and solvency ratios. This financial ratio analysis can help companies evaluate financial performance and identify areas that need improvement. In research conducted by Gitman (2011), financial performance can also be influenced by factors such as company size, organizational structure, and management capabilities. Therefore, companies must be able to manage these factors well in order to achieve optimal financial performance.

Research conducted by Jensen and Meckling (1976) also explains that financial performance can be influenced by agency theory, namely a theory that explains the relationship between company owners and management. Therefore, companies must be able to manage the relationship between owners and management well in order to achieve optimal financial performance.

In research conducted by Fama and French (1992), financial performance can also be influenced by factors such as company size, price-to-book ratio, and earnings-to-price ratio. Therefore, companies must be able to manage these factors well in order to achieve optimal financial performance.

Company leaders or management are very interested in financial reports that have been analyzed, because these results can be used as a tool in making further decisions for the future. By using ratio analysis, based on data from financial reports, you can find out the financial results that have been achieved in the past, you can find out the weaknesses of the company, as well as results that are considered quite good.

Overall, financial performance is the ability of an organization or company to manage financial resources to achieve predetermined goals and objectives. Financial performance can be measured using various indicators and can be influenced by several factors, such as capital structure, rate of return, business risk, company size, organizational structure, management capabilities, etc.

Financial Ratio Analysis

Financial ratio analysis shows the pattern of relationship or balance between certain accounts or posts and other accounts or posts in the financial statements. This analysis better describes the financial position, especially if the ratio figures calculated are then compared with the comparative ratio figures used as standards (Warsono, 2003).Measuring financial performance has several objectives (Munawir, 2002). The first objective is to determine the level of liquidity, namely the company's ability to fulfill financial obligations when they are billed. The second objective is to determine the level of solvency, namely showing the company's ability to fulfill its financial obligations if the company is liquidated, which includes both short-term and long-term obligations.

In carrying out financial report analysis, there are several things that need to be considered. First, the analyst must identify certain trends in the financial statements. Second, independent figures are difficult to say whether they are good or not, so comparative figures are needed, for example industry averages. Third, important discussions or questions that accompany financial reports, such as discussions of company strategy, discussions of expansion or restructuring plans, are internal parts that must be included in the analysis. Fourth, sometimes all the necessary information can be obtained through in-depth analysis of financial reports, but additional information is still needed to provide a sharper analysis (Hanafi and Halim, 2003)

METHOD

This research uses a Meta Analysis design. Meta analysis can simply be interpreted as analytical analysis. As research, meta analysis is a study of a number of research results on similar problems. The instrument in this research uses a Human Instrument. Once the research focus becomes clear, a simple research instrument will be developed which is expected to be able to complete the data and compare data that has been found previously. Data collection techniques will use documentation techniques. The population in this research is all written documents regarding research on the Impact of CSR on Company Financial Performance. The written documents are: 5 journals A comprehensive search was carried out using digital databases such as PubMed, Scopus, Corpernicus, Ebsco, Doaj, Elsevier, Google Scholar and Web of Science to find relevant research papers published in journals written in English. The research sample was taken using Purposive Sampling technique. This is because the data or information to be obtained from the sample is determined based on its suitability to the theme of this research.

RESULTS

Research regarding the influence of corporate social responsibility on company financial performance was carried out by utilizing 5 studies originating from various journal sources. Subjects included in the meta analysis are those related to research: Nadeem Iqbal et al (2013), Muttanachai et al (2021), Zaki Ahmad et al (2024), Judita Adamkaite et al (2022), Luis et al (2023) Meta analysis was carried out to test the relationship between variables in a particular study. The study focuses on a particular research object in the engineering field. The study population/sample was used for data collection, and a specific analysis approach was applied

The research objective regarding CSR and financial performance has a main focus on examining the influence of corporate social responsibility, which dominates with a ratio of 45%. This step shows deeper precision by using statistical methods and quantitative models to measure financial performance in detail, aiming to produce strong empirical evidence about the relationship between the influence of corporate social responsibility and financial performance. The second ratio is 30%, leading to the identification of the relationship between the influence of corporate social responsibility and financial performance through the data collection and descriptive analysis stages. The third ratio, at 25%, focuses on practical analysis of the application of corporate social responsibility to financial performance by discussing strategies and recommendations that can be implemented directly by the organization. Overall, this research seeks to provide a holistic understanding of the role of corporate social responsibility on financial performance.

Research on quality costs based on objects from 5 studies shows the diversity of research objects that focus on various banking sectors in various countries. Cumulatively, the banking industry in India dominates as the largest research object with a contribution of 20%, followed by banking in Thailand (10%), Pakistan (10%), Malaysia (10%), and Lithuania (10%).

Through the results of meta-analysis from 5 journals, it can be concluded that the variables studied cover ten main aspects, with five independent variables and five dependent variables. In terms of independent variables, Corporate Social Responsibility (CSR) is the main focus with a contribution of 39%, followed by financial performance (5%), and company image (6%). Meanwhile, the dependent variable is mainly focused on corporate social performance with a ratio of 35%, followed by Corporate Social Responsibility (CSR) (4%), and corporate image (2%). These results reflect the complexity of the relationship between corporate performance and other variables in the research context, highlighting the importance of understanding the various aspects that influence Corporate Social Responsibility (CSR) and corporate performance.

Conducting a study on the influence of Corporate Social Responsibility (CSR) and customer satisfaction, collecting data by analyzing data from 5 research journals that focus on quality costs; Quantitative methods play a role of 35%, showing the importance of detailed understanding of quality concepts that have been explained in related literature. Interviews were the main method with the highest contribution of 60%, reflecting the need to gain direct insight from respondents who have knowledge of the influence of customer satisfaction in the banking sector. Meanwhile, 10% cross-sectional method, 10% deductive, 10% explanatory and explanatory. This shows that the data collection approach through interviews plays a role in supporting understanding regarding financial performance. Overall, these results mark the diversification of data collection techniques in the context of the influence of corporate social responsibility on financial performance.

This Corporate Social Responsibility (CSR) program is one type of service that companies can provide to their customers, in order to respond to socio-economic changes and create a relationship of trust and loyalty between the company and its customers. Customer loyalty is the behavior of customers to make repeated purchases over a very long period of time for goods or services, and recommend to other people to purchase goods or services that they have consumed. (Khaeriani & Hasan, 2022).

Corporate social responsibility (CSR) has no effect on financial performance (CFP), this is in line with research by Nadeem Iqbal et al (2012), information about CSR in companies does not collect proxies, especially for companies in Thailand as in Muttanachai's (2021) research. Zaki Ahmad (2024) results prove that the research significantly increases the relationship between CSR disclosure and financial performance in the context of halal food companies in Malaysia.

Based on research in Judita Adamkaite (2022) there are four relationships between CSR and CFP positive (CSR provides competitive advantage due to stakeholder trust, application of anti-pollution technology), negative (CSR causes irrecoverable and anti-competitive costs), neutral (CSR costs and overall benefits are equivalent) and U-shaped (the level of socially responsible activity worsens outcomes until a tipping point, after which strong relationships with stakeholders begin to provide competitive benefits and increased CFP). Analysis of other studies regarding the impact of CSR on CFP has not provided a generally accepted conclusion that there is a relationship between CSR and CFP.

The research results of Luis René (2023) prove that this research does not provide strong enough evidence to conclude that there is a significant relationship between CSR and CFP of energy companies. In addition, the results of this study do not provide strong enough evidence to conclude that the individual dimensions of ESG scores have a relevant influence on a company's CFP.

The meta-analysis results show that in research on company financial performance from 5 journals, there are variations in the data analysis methods applied. Multiple regression analysis dominates with a contribution of 35%, indicating a tendency to explore complex relationships between variables in the context of service quality. Furthermore, descriptive analysis has a very significant role with the highest contribution of 55%, emphasizing an in-depth understanding of the characteristics and distribution of data related to social performance. The use of exploratory analysis and explanatory analysis is 5% each, reflecting efforts to provide a clear statistical picture and understand explanatory factors that can influence Corporate Social Responsibility (CSR) on financial performance. Overall, these results illustrate a combination of data analysis techniques that can provide more comprehensive insight into the relationship between Corporate Social Responsibility (CSR) and other variables in various research contexts.

DISCUSSION

Based on research results from the five journals mentioned, there are findings that show a positive relationship between Corporate Social Responsibility (CSR) and company financial performance. These studies show that CSR disclosure in various dimensions such as economic, environmental and social has a significant influence on company profitability. Apart from that, there is an implication that companies that pay attention to CSR, especially in terms of rewards and CSR activities, tend to benefit from better financial performance. CSR expenditure per activity is also an important factor to consider in managing CSR practices, where companies with lower CSR expenditure per activity can manage costs more efficiently and gain advantages in financial performance.

Based on stakeholder theory, companies have obligations to all interested parties, including the government, society, the environment, political parties, and others, in addition to their shareholders. One way for companies to fulfill this obligation is through CSR initiatives. CSR initiatives can improve a company's reputation in the eyes of its stakeholders.

The results of this research are in line with research conducted by Nadeem Iqbal et al (2013), Muttanachai et al (2021), Zaki Ahmad et al (2024), Judita Adamkaite et al (2022), Luis et al (2023). The results of their research show that Corporate Social Responsibility has a positive effect on financial performance. This shows that the higher Corporate Social Responsibility will affect the company's financial performance.However, there is also research that shows that the relationship between CSR and financial performance in the context of renewable energy companies is still unclear. This study highlights the complexity and challenges that exist in measuring this relationship, and emphasizes the need for further research to understand the impact of CSR in more depth in this context.

CONCLUSION

The conclusion of the research results shows that there is a positive relationship between CSR and company financial performance, but this can vary depending on the industry sector and the company's specific context. The implication of these findings is that it is important for companies to pay attention to CSR practices as a factor that can contribute to their financial performance, by taking into account CSR expenditure, awards and CSR activities as part of their management strategy. Research in countries such as Pakistan, Thailand, Malaysia, Lithuania and Indonesia reveals that Corporate Social Responsibility (CSR) can increase trust and financial performance, which in turn strengthens their loyalty to banks. Therefore, banks around the world are advised to continue investing in strategic and well-communicated Corporate Social Responsibility (CSR) programs to build strong and sustainable relationships with their customers, thereby creating a significant competitive advantage in the banking industry. This is because the banking sector continues to expand its social responsibility programs and increase experience, which will increase customers' sense of loyalty.

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